

**Imposing the Liberal Peace:
State-building and Neo-liberal Development
in Timor-Leste**

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Abstract

From the mid-1990s, the amalgamation of security, development, and humanitarian imperatives under the single umbrella of ‘state-building’ has provided a compelling justification for increasingly intrusive interventions into the political, economic, and social affairs of subject countries. Guided by the assumptions of liberal peace theory, state-building initiatives engage directly with states, seeking to achieve a reformulation of structures of government as a first step towards the implementation of wider socio-economic reforms. The state-building project is geared towards the construction of a particular form of statehood in subject states; state institutions are to be reconstructed in accordance with a liberal template, and tasked with establishing the necessary institutional environment for market-led development and the liberal peace.

Contemporary discourses of state-building and development are fundamentally interlinked, representing a unified process of neo-liberal replication in subject states, whereby fundamental transformations of social, political, and economic structures are to be implemented and sustained through the construction of liberal state institutions. Pressure to court international approval due to conditions of aid dependence curtails the potential for meaningful democracy in subject countries. Key questions of social and economic policy are subsumed as technical matters of good governance and removed from domestic democratic contestation, facilitating a transfer of formerly domestic considerations into the international sphere. These interlocking processes of state-building and neo-liberal discipline have contributed to an inversion of sovereign statehood, whereby the state serves to channel inward an externally driven agenda, rather than acting as a sovereign expression of domestic interests. This reality raises important questions regarding the nature of democracy in post-conflict environments, and in particular the impact of state-building activities on the prospects for broadly inclusive democracy in subject states.

This study will examine the evolution of state-building as a critical components of peace-building missions, its central assumptions and goals, and its implementation in practice in Timor-Leste. The state-building process in Timor-Leste has contributed to the formation of an insulated state with little basis in Timorese society. The democratic experience in Timor-Leste has been profoundly disempowering; conditions of aid dependence have constrained elected governments

in key areas of social and economic policy, resulting in a loss of popular legitimacy and mounting public disenchantment. Closer examination of food and agricultural policy and management of Timorese oil reserves reveals the extent to which government policy remains constrained by international preferences. In these areas, the government's inability to act in the interests of the Timorese public has compounded social hardships and popular discontent, contributing to the build-up of anti-government sentiment that manifested itself in the 2006 crisis.

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INTRODUCTION

Introduction: State-building and the 'Security-Development Nexus'

Over the past two decades, United Nations-led peace-building efforts have come to be dominated by the logic of state-building, an approach which emphasizes the role of the state in the challenges of fostering peace and development after conflict. Whereas previous approaches to peace-building and development sought to bypass the state in the interests of greater efficiency and transparency, state-building rhetoric elevates the state to a position of primary importance as international partner and domestic facilitator of development initiatives. State-building has emerged as the focal point of a strategic alignment of the domains of security and development, and is upheld as a solution to the challenges of conflict and underdevelopment during a time of crisis in both the peace-building and development communities.

The domains of security and development remained largely distinct until the 1990s, when shifting historical and political conditions enabled the evolution of a new paradigm to address the failure of international attempts to promote peace and development. In the development sphere, structural adjustment initiatives in the 1980s sought to achieve economic growth through liberalization policies that reduced state involvement in economic affairs. The failure of these policies to achieve the anticipated outcomes necessitated a reevaluation of orthodox approaches to development. Analysts identified low state capacity as the primary reason for poor economic performance, calling for future development initiatives to engage with states in order to implement policies more effectively.¹

The 1990s also witnessed the reexamination of international approaches to peace and security, with a series of devastating conflicts in Bosnia and Rwanda highlighting the inability of traditional security measures to address contemporary conflicts. Traditional security structures were paralyzed to prevent the humanitarian

¹ R. Abrahamsen. (2000) *Disciplining Democracy: Development Discourse and Good Governance in Africa*. London: Zed Books, p. 40-41

D. Craig and D. Porter. (2006) *Development Beyond Neoliberalism? Governance, Poverty Reduction and Political Economy*. New York: Routledge, p. 12-13

World Bank. (1991) *World Development Report 1991: The Challenge of Development*. New York: Oxford University Press.

———. (1997) *World Development Report 1997: The State in a Changing World*. New York: Oxford University Press.

crises springing from such conflicts, culminating in widespread efforts to create more effective peace-building structures capable of ensuring human security. Viewing ineffective statehood as a common factor contributing to contemporary conflicts, key actors in the international community identified weak states as a significant threat to human security, and advocated measures to build state capacity as a means of preventing conflicts and upholding the welfare of civilians.² Furthermore, observers highlighted the negative impact of prolonged conflict on institutions of governance, often resulting in an absence of national mechanisms to engage in meaningful post-conflict reconstruction and a long-term, unsustainable level of dependence on international actors following conflict. Strong state institutions were thus seen by many as key to a country's ability to manage the transition to peace after conflict.³

Advocating a renewed role for the state alongside international actors in the areas of development and peace-building, frontline organizations such as the United Nations and the World Bank called for a concerted emphasis on building state capacity in developing countries.⁴ They were joined by influential commentators and public figures such as Lakhdar Brahimi and Francis Fukuyama, who identified state-

² M. Ignatieff. (2002) Intervention and State Failure. *Dissent* 49(1):114-23.

International Commission on Intervention and State Sovereignty. (2001) The Responsibility to Protect: Report of the International Commission on Intervention and State Sovereignty. Ottawa: International Development Research Centre.

³ S. Chesterman. (2005) *You, the People: The United Nations, Transitional Administration, and State-Building*. Oxford: Oxford University Press.

J. Fearon and D. Laitin. (2004) Neotrusteeship and the Problem of Weak States. *International Security* 28(4):5-43.

F. Fukuyama. (2004a) The Imperative of State-Building. *Journal of Democracy* 15(2):17-31.

S. Krasner. (2004) Sharing Sovereignty: New Institutions for Collapsed and Failing States. *International Security* 29(2):85-120.

R. Paris. (2004) *At War's End: Building Peace after Civil Conflict*. Cambridge: Cambridge University Press.

⁴ This terminology of 'developed', 'developing', and 'underdeveloped' is used throughout this thesis for clarity of reference, particularly in sections that focus on economic processes associated with neo-liberal development. The use of these terms pose considerable difficulties for critical authors, recognizing the systems of power that pervade development discourse and the Western claims to knowledge they represent. Narratives of development/underdevelopment create a false dichotomy that overlooks the exercise of Western power over its undeveloped 'others', and the ongoing processes of exploitation and accumulation that continue to define development practice. Throughout this thesis, this developed/developing/underdeveloped phraseology is used with caution, recognizing the tensions presented by such usage and acknowledging the structures of discursive power and the "will to spatial power" it represents (Escobar, p. 9). As it is a terminology that offers greatest clarity with reference to relations between 'core' and 'peripheral' regions of the global capitalist economy, I have used this language where necessary, whilst eschewing the exercise of power and exploitation this language has frequently been used to sustain.

See A. Escobar. (1995) *Encountering Development: The Making and Unmaking of the Third World*. Princeton: Princeton University Press, p. 8-9; M. Duffield. (2001) *Global Governance and the New Wars: The Merging of Development and Security*. New York: Zed Books, p. 4

building as the primary objective of peace operations.⁵ By the late 1990s, an international consensus had begun to grow around the importance of effective statehood for overseeing the transition to peace. Amongst the development community, advocates of the ‘good governance’ agenda had reached similar conclusions regarding the importance of state capacity for sustainable peace and development.⁶ State-building has thus become a strategic imperative, a unifying innovation in the domains of international development and security, and a guiding logic for peace and development in the twenty-first century.⁷

Mark Duffield argues that the ‘security-development nexus’⁸ – as this alignment of security and development concerns has come to be known – represents a radicalization of development, with development policy now seeking to implement widespread social transformations in the global South⁹ in order to eliminate violent conflict.¹⁰ From the mid-1990s, the amalgamation of security, development, and humanitarian imperatives under the single umbrella of ‘state-building’ has provided a compelling justification for increasingly intrusive interventions into the political,

⁵ L. Brahimi. (2007) *State Building in Crisis and Post-Conflict Countries*. In *7th Global Forum on Reinventing Government*. Vienna, Austria. Online at

<<http://unpan1.un.org/intradoc/groups/public/documents/un/unpan026305.pdf>> (Accessed 16

November 2012)

Fukuyama (2004a)

F. Fukuyama. (2004b) *State-Building: Governance and World Order in the 21st Century*. Ithaca, N.Y: Cornell University Press.

———. (2005) ‘Stateness’ First. *Journal of Democracy* 16(1):84-88.

⁶ United Nations. (n.d.) Governance. <<http://www.un.org/en/globalissues/governance/index.shtml>> (Accessed 13 November 2012)

World Bank. (1992) *Sub-Saharan Africa: From Crisis to Sustainable Growth*. Washington, D.C.: World Bank, p. xii

⁷ Duffield

⁸ The term ‘security-development nexus’ (or ‘development-security nexus’) is used by scholars to refer to the coming together of the distinct policy areas of security and development since the 1990s.

See D. Chandler. (2007) *The Security-Development Nexus and the Rise of ‘Anti-Foreign Policy’*.

International Relations and Development 10(4):362-86.

⁹ The term ‘South’ is used throughout this thesis to refer to those areas of the world that are formally excluded from – or only partially or conditionally integrated – the core regional areas of the global economy, which are described as the ‘North’ (Duffield, p. 4). Distinctions such as Third World/First World and developed/developing/underdeveloped are regimes of representation that reflect the “will to spatial power” that characterised first the colonial era and remains an essential feature of the contemporary development project (Escobar, p. 9). Such discourses are produced and maintained under conditions of unequal power, and the use of such universalizing terminology has been a crucial part of Western constructions of knowledge and domination over large parts of the globe.

Recognising the power of such dichotomies throughout the history of the twentieth century development project, the use of the phraseology ‘South’ and ‘North’ is preferred where possible, in acknowledgement of the mobilizations of political and economic power that have given rise to such distinctions.

See Duffield, p. 3-4; Escobar, p. 8-9; Focus on the Global South. (n.d.) About Focus on the Global South. <<http://focusweb.org/about>> (Accessed 8 December 2014)

¹⁰ Duffield

economic, and social affairs of subject countries.¹¹ Such intrusions have not been limited to post-conflict environments; contemporary peace-building efforts also include preventative initiatives that employ social, economic and political measures to prevent potential conflicts by eliminating conditions of underdevelopment and bolstering state capacity.¹²

A particular form of statehood is required in order to discharge the tasks of maintaining security and overseeing national development in accordance with international objectives. Whereas previous development initiatives had preferred a minimalist state with limited influence in development matters, proponents of the state-building agenda envision a crucial management role for the state, calling on states to ‘partner’ with the international community and civil society in the development process.¹³ States are tasked with creating an environment in which development initiatives can prosper, thus facilitating the transition to peace by eliminating underdevelopment and the roots of conflict. This role requires considerable administrative capacity; states must be capable of providing a standard of reliable public services in order for economic development to flourish. State institutions must conform to certain principles of management and organization in order to fulfill the role envisioned by the international community; they must display a strong commitment to democracy and the rule of law, and adhere to principles of efficiency and accountability. The implementation of these norms and processes within states is the express goal of state-building operations.¹⁴

The contemporary state-building project¹⁵ aspires to the realization of strong, reconfigured states, equipped to carry out the profound transformation of post-conflict

¹¹ For the purposes of this thesis, the term ‘subject countries’ or ‘subject states’ will be used to refer to countries that have been – or are currently – subjected to international interventions. This term may be used in reference to state-building interventions, or to associated programmes of external intervention such as structural adjustment or good governance.

¹² Duffield, p. 113-14

United Nations. (2004) *A More Secure World: Our Shared Responsibility: Report of the High-Level Panel on Threats, Challenges and Change*. New York: United Nations, p. 12-13

¹³ World Bank (1997)

¹⁴ Ibid.

¹⁵ The state-building agenda is set by organizations such as the World Bank, the United Nations, and the International Monetary Fund, and by key donor governments and non-governmental organizations associated with development activities. There is no single guiding framework for state-building practice – rather a body of reports, policy statements, ‘best practice’ documents, and academic literature that has coalesced to form a broad international consensus on what constitutes ‘state-building’. Duffield describes the convergence of state and non-state actors around issues of security and development as ‘strategic complexes’. At times throughout this thesis, this body of policies and literature is referred to as ‘the state-building project’ or ‘agenda’. This terminology is employed for ease of reference, but should not be taken to imply that state-building theory or practice is an entirely

society deemed necessary for building sustainable peace.¹⁶ The form of governance and statehood to be constructed in subject states is highly prescribed by international actors. Guided by the assumptions of liberal peace theory, the state-building programmes implemented by the international community embody a definite and highly ideological system of preferences that require an extensive restructuring of relations of government, economy and society in subject countries. By engaging directly with states, state-building initiatives are intended to reformulate structures of government as a first step towards the implementation of a wider ranging set of socio-economic reforms. Recognizing the importance of states as a crucial link between external actors and domestic societies, organizations and institutions of the 'security-development nexus' seek to recruit states as partners in this transformative process.¹⁷

This 'partnership' between external actors and subject states is characterized by highly asymmetrical relations of power. Despite paying lip service to concepts of sovereignty, cultural competence, and local ownership and empowerment, state-building programmes essentially embody a schedule of reforms that re-orient systems of governance to reflect a set of externally determined preferences. These values are represented as universal and apolitical, and the process of reforms as a purely technical matter. However, scholars and commentators such as Rita Abrahamsen and Cynthia Hewitt de Alcántara contend that such claims serve to obscure the highly political nature of interventions into developing countries, justifying and concealing the extent of reforms behind a veneer of bureaucratic language that deliberately recasts sensitive political interventions as technical processes.¹⁸

The good governance agenda has been a primary instrument for the implementation of state-building reforms. Identifying certain systems of governance in terms of 'good governance' has served as a discursive tool to legitimize a series of highly intrusive policies within state institutions.¹⁹ Although the wider implications of such policies are often highly contentious, governance reforms are typically externally

monolithic or uncontested framework. Nor is the use of this term of reference intended to confer this state-building framework itself with agency; it is merely a convenient phrase used to refer to a general ideological consensus and a constellation of agencies and institutions that have come together around the idea and practice of 'state-building'.

¹⁶ Brahim

¹⁷ World Bank (1997)

¹⁸ Abrahamsen

C. Hewitt de Alcántara. (1998) Uses and Abuses of the Concept of Governance. *International Social Science Journal* 50(155):105-13.

¹⁹ Abrahamsen

implemented and shielded from domestic democratic oversight. Casting reforms as technical matters of ‘good governance’ and attaching them to systems of aid conditionality serves to obscure their political implications whilst removing them from the remit of democratic political authority. Political accountability thus becomes separated from decision-making, with the power to direct key government policies located outside the state. Good governance initiatives have been a central mechanism in divesting the political and economic authority of states and transferring this authority to unrepresentative external mechanisms of global governance.²⁰

The result is that governments subject to state-building interventions face a dilemma between two standards of legitimacy. States face considerable tension between their obligations to local constituencies and the expectations of the external donor community.²¹ Where these obligations are at odds, states are expected to prioritize the demands of the international community, or risk jeopardizing access to the international resources on which their administrations depend. Despite their rhetoric regarding local ownership, power in state-building relationships remains in the hands of the international community, who set the priorities which frame national decision-making and render national authority and domestic political processes subject to internationally regulated frameworks of governance.²² Caroline Hughes describes this situation – experienced by many states in the global South – as ‘aid dependence’. Relations of aid dependence have proved a central means of assuring the ongoing compliance of states with international state-building and wider development programmes.²³

Pressure to court international approval curtails the potential for meaningful democracy in subject countries. Key questions of social and economic policy are subsumed as technical matters of good governance and removed from domestic democratic contestation, facilitating a transfer of formerly domestic considerations into the international sphere.²⁴ This reality raises important questions regarding the nature of democracy in post-conflict environments, and in particular the impact of

²⁰ Duffield; Abrahamsen

²¹ S. Tadjbakhsh. (2010) Human Security and the Legitimation of Peacebuilding. In *Palgrave Advances in Peacebuilding : Critical Developments and Approaches*, edited by Oliver P. Richmond, pp. 116-36. New York: Palgrave Macmillan.

²² D. Chandler (2006) *Empire in Denial: The Politics of State-Building*. Ann Arbor, M.I: Pluto, p. 50

²³ C. Hughes. (2009) *Dependent Communities: Aid and Politics in Cambodia and East Timor*. Cornell Southeast Asia Program. Ithaca: Cornell Southeast Asia Program Publications.

²⁴ Chandler (2006), p. 45

state-building activities on the prospects for broadly inclusive democracy in subject states. Abrahamsen argues that the form of democracy being promoted by contemporary development discourse and state-building practice is a minimalist, ‘procedural’ version of democracy that emphasizes formal procedures of participation whilst emptying democracy of its content.²⁵

The international state-building project raises a number of issues regarding the nature of power and the distribution of resources in the current international system. By subjecting formally sovereign states to unprecedented levels of external intervention and surveillance, the state-building project is challenging the concept of ‘sovereignty’ itself. David Chandler argues that international state-building attempts have brought about the ‘inversion’ of the sovereign state, wherein the state no longer embodies the collective wishes of the nation, serving instead to channel inward an externally driven agenda.²⁶ By subordinating the political process to the bureaucratic and administrative disciplines of ‘good governance’, state-building initiatives are facilitating the creation of new forms of statehood – states embedded in, and subject to, international frameworks of regulation.²⁷

Advocates of state-building argue that the solution to dilemmas of underdevelopment, conflict, and state failure lies in a strengthening of state institutions, the reconstruction of legitimate authority in weak or post-conflict states, and the transformation of systems of governance. However, questions must be asked regarding the nature of the institutions being implemented in states of the South as part of the state-building project. What roles have discourses of neo-liberal development – in particular good governance discourse – played in reconstituting patterns of social, political, and economic organization? What – or *whose* – assumptions and values do these structures and systems of organization embody? How are such extensive intrusions into domestic affairs justified by the international community, and what are their implications for state sovereignty?

This thesis will explore the process by which state-building reforms are justified and implemented, with an emphasis on the normative implications of these policies and the inequalities and systems of power they reveal. The hegemonic, coercive nature of contemporary state-building and development practice disguises

²⁵ Abrahamsen, p. 77-79

²⁶ Chandler (2006), p. 43

²⁷ Ibid. p. 38-39, 42

itself through discourses of democratic empowerment and local ownership, whilst exercising an unparalleled degree of authority over the policies of purportedly 'sovereign' states.²⁸ The result has been a dramatic transformation of the nature of sovereignty and democracy in the global South.

Case Study: State-building and Neo-liberal Development in Timor-Leste

These issues and contradictions within international state-building will be explored in connection with the experiences of Timor-Leste.²⁹ Since independence, Timor-Leste has been exposed to an unprecedented degree of international involvement, leading some commentators to compare it to the trusteeship arrangements of the early twentieth century.³⁰ The United Nations Transitional Administration in East Timor (UNTAET) that assumed control of the country in 1999 was authorized to carry out transitional administration and capacity building for the future Timorese state. These tasks included the exercise of legislative, executive, and judicial authority, public and military security functions, and the coordination of humanitarian and development assistance programmes. However, despite the extraordinary authority and generally favourable conditions met by UNTAET upon deployment to East Timor, the mission has been widely criticized for its centralized nature, its failure to promote a meaningful level of Timorese participation, and its inadequacies in terms of building state capacity in preparation for independence.

The independent Timorese government that assumed authority from the United Nations in 2002 displayed similar centralized and non-consultative tendencies to the UNTAET administration. Although initially receiving a high degree of popular support, the state's insulated nature and inability to respond to popular demands served to distance it from the Timorese population. Continuing high levels of international involvement in Timor-Leste associated with development and governance activities has served to constrain the policy choices of successive national

²⁸ Chesterman

Abrahamsen; Chandler (2006)

²⁹ 'Timor-Leste' is the Portuguese term for East Timor. Upon independence in May 2002, the Timorese government adopted the 'Democratic Republic of East Timor' (in Portuguese, 'República Democrática de Timor-Leste', and in Tetum, 'Repúblika Demokrátika Timor Lorosa'e'), and has requested that the shortened term 'Timor-Leste' be used internationally. This is the title that will be used to refer to the country post-independence (ie., post-2002) throughout this thesis. The name 'East Timor' is used to refer to the country prior to independence, as this is the title by which the country is most commonly known in English, and to which it was commonly referred prior to independence. See Hughes, p. ix-x

³⁰ P. Gorjão. (2002) The Legacy and Lessons of the United Nations Transitional Administration in East Timor. *Contemporary Southeast Asia* 24(2):313-36.

governments, locking the state into a position of aid dependence and limiting state discretion to actions specifically endorsed by donors and the international community. Where these external preferences differ from the demands of the majority of the East Timorese population, the national government is generally compelled to prioritize donor expectations, or risk the consequences in terms of reduced economic and technical assistance and international alienation.

In Timor-Leste, as in other countries, the form of statehood produced in this aid dependent context has served to alienate many elements within Timorese society. The process of state formation in Timor-Leste did not arise naturally in response to the historical, social, and political contingencies of Timorese society. On the contrary, the state-building process that took place resembled an experiment in liberal 'state transplantation', reflecting a Western discourse of state formation rather than any meaningful attempt to support the emergence of locally relevant governing structures. Adhering to internationally prescribed concepts of what constitutes a peaceful, 'developed' society, interveners disregarded existing governance structures in favour of an institutionalist, technocratic model.³¹ Accordingly, the 'peace' that has been constructed in Timor-Leste amounts to little more than a 'virtual peace', presided over by the 'empty institutions' of an ineffective state. These institutions have failed to perform as viable instruments of public administration, or to demonstrate any relevance to Timorese society.³²

This situation has troubling implications for domestic politics and the potential for broadly inclusive democracy in Timor-Leste. The process of state formation paid little regard to local structures of governance, and produced a state that lacks political legitimacy. No 'contract' between state and society exists; in its place has been erected a state based on the governance contract, the requirements of which the state has been largely unable to fulfill.³³ External requirements have constrained elected Timorese governments in key areas of economic and social policy, preventing them from responding to the demands of their domestic constituency and exacerbating popular disillusionment with the 'democratic' experience. Closer examination of food and agricultural policy and management of Timorese oil reserves reveals the extent to which government policy remains constrained by international preferences, despite

³¹ Hughes, p. 95-96

³² O. Richmond and J. Franks. (2008) Liberal Peacebuilding in Timor Leste: The Emperor's New Clothes? *International Peacekeeping* 15(2):185-200, p. 197-98

³³ Hughes; Richmond and Franks

formal independence in 2002. In these areas, the government's inability to act in the interests of the Timorese public has compounded social hardships and popular discontent, contributing to the build-up of anti-government sentiment that manifested itself in the 2006 crisis.³⁴

This study will examine the development of state-building as a critical component of peace-building missions, its central assumptions and goals, and its implementation in practice in Timor-Leste. Close attention will be paid to the relationship between state-building efforts and development activities in post-conflict countries, the particular approaches to development this involves, and the impact of these approaches on societies in post-conflict developing countries. A key concept for analysis is the notion of 'good governance', which represents the main link between the complementary projects of state-building and economic development in the contemporary era. The case study will incorporate a close examination of Timor-Leste's food and agricultural policy and the management of the country's oil resources and oil revenues, in order to explore the implications of aid dependence on government policy and practice in two areas that have been identified as central to national economic development.

Organization of the Thesis

The body of this thesis can be broadly divided into two main sections – a theoretical section and a case study section. Chapters 1-3 contain analyses of the concepts of peace-building, state-building, and neo-liberal development respectively. Each chapter contains an overview of the historical and theoretical developments relating to its subject, and incorporates a literature review setting out key arguments in the evolution of peace-building, state-building, and neo-liberal development theory. The chapters then conclude with a critical discussion exposing the tensions and implications that arise from the application of these concepts in practice, building on each other to highlight key issues raised by the intersection of peace-building, state-building, and neo-liberal development agendas.

Chapter One examines the development of United Nations peace operations and the concept and evolution of peace-building. Since their emergence in the 1990s, peace-building missions have come to incorporate a sweeping programme of social, economic, and political measures that are considered necessary for establishing the

³⁴ Hughes

conditions for stable peace. This chapter will explore the relationship between peace-building and liberal peace theory – a system of ideas that promotes economic liberalization and democratization as key to reducing internal (and external) armed conflict and building sustainable peace in post-conflict societies. The tenets of liberal peace theory are evident in peace-building theory, which identifies underdevelopment as a crucial factor in contemporary armed conflict, and argues for the implementation of democratic reforms and (neo-)liberal development measures as the solution to such conflicts. The bringing together of development and security concerns within the peace-building agenda provides a powerful impetus for intervention in conflicts in the global South, and has become a mechanism for the replication of the ‘liberal peace’ in warring or ‘underdeveloped’ countries.

Chapter Two examines the emergence of the state-building agenda as a central focus of contemporary peace-building efforts. State-building has arisen in response to a multiplicity of factors, including the threat of weak or failed states, the failures of previous peace-building missions, and a growing international consensus regarding the need for strong, rejuvenated states in order to protect human rights and facilitate national development (in partnership with international institutions). The chapter includes a literature review, which discusses the emergence of the concept of state-building and arguments made by key theorists in support of international engagement in state-building activities, and identifies the primary functions and goals of contemporary state-building efforts. It then turns to a critical discussion of the social impacts of state-building, highlighting the extraordinary degree of social engineering involved in the process of implementing specific state forms in post-conflict states. Contemporary state-building programmes continue to channel the basic assumptions of liberal peace theory, seeking to implement a form of statehood that is modelled on liberal, Western institutions. In many countries in the South, this process embroils national governments in tensions between conflicting standards of external and internal legitimacy. Furthermore, conditions of aid dependence limit the ability of these governments to respond to the demands of their citizenry. Having laid out the central arguments in favour of state-building, this chapter explores the implications of the state-building project for subject countries, particularly in relation to issues of sovereignty, responsibility, accountability, and democracy.

Chapter Three begins with an account of the evolution of the concept and practice of development since the Second World War. It outlines significant theories

and approaches to development during this time, such as state-led development, modernization theory, and dependency and world systems theories. In light of the ideological dominance of neo-liberal economics since the 1980s, considerable attention is paid to the evolution of market-based theories of development and their implementation in countries of the South, particularly in the post-conflict context. Particular attention is paid to the concept of ‘good governance’, which has played a crucial role in bringing together neo-liberal development and state-building, and has served as a focal point of state-building efforts in post-conflict and ‘underdeveloped’ countries. ‘Good governance’ represents a specifically neo-liberal approach to governance, and has wide-ranging implications for political organization and questions of social and economic policy. This overlapping of state-building, neo-liberal development, and governance objectives raises a number of important questions. To what extent do neo-liberal governance reforms condition the limits of possibility for social and economic development in the global South? What type of ‘democracy’ is being promoted through the state-building project, and how do relationships of ‘aid dependence’ and conditionality affect the exercise of democratic decision-making in subject countries? This chapter examines the impact of international attempts to boost development outcomes through governance initiatives in subject countries, and the implications of these efforts for autonomous national development and democracy.

Chapters Four and Five explore how the concepts of peace-building, state-building, and neo-liberal development have been applied in practice, through a case study of the experiences of Timor-Leste between 1999 and the present. Chapter Four constitutes an overview of the international state-building process in Timor-Leste. Particular attention is paid to the experiences and legacy of the UNTAET transitional administration, and the ongoing impact of post-independence state-building efforts. It is argued that, despite the unprecedented levels of international involvement in Timor-Leste – or perhaps *because* of them – the state-building project in Timor-Leste has contributed to the formation of an ‘insulated state’ which has little basis in Timorese society. The national government is locked in a situation of aid dependence, rendering the state more responsive to an international constituency than to the local population. This reality restricts the government’s policy options and prevents it from responding adequately to the demands of its citizens. Despite having received formal legal sovereignty at independence, the exercise of Timorese sovereignty is constrained due

to ongoing state-building and development activities. The state occupies a subordinate position within the international architecture of global governance, which extends its influence into states of the global South through regimes of neo-liberal governance. In Timor-Leste, these mechanisms have limited the potential for democratic governance, equitable development, and autonomy, resulting in widespread public dissatisfaction and contributing to further outbreaks of conflict.

Chapter Five explores the implications of aid dependence in two specific contexts within Timor-Leste. The first section examines the country's oil sector, with a particular focus on the management of oil revenues and the quandary the government has faced between international restrictions over its use and its desire to channel these funds towards public welfare and economic growth. The next section of the chapter discusses the country's approach to the intersecting issues of food security and agricultural policy, highlighting the contradictions between the government imperatives of generating food security, self-sufficiency and local employment, and the desire to develop the cash crop sector and attract foreign investment in order to generate foreign exchange and stimulate infrastructural development. These examples clearly demonstrate the ways in which international regulation and neo-liberal governance mechanisms act to limit the possibilities for autonomous national development. The disconnect between the domestic interests and expectations of the Timorese population and the exigencies of external organizations and donors reveals the undemocratic nature of international liberal governance, which serves to limit the possibilities for economic development and national policy in subject states to a set of narrow, externally determined parameters. This chapter will expose the exercise of neo-liberal discipline in Timor-Leste, in order to highlight the fundamental tension between Timorese national objectives of self-sufficiency and social welfare, and external objectives of fiscal discipline and liberalization.

The conclusion draws together the main threads of argument from each chapter and draws them together into a concise conclusion. Throughout the thesis, each chapter contributes to the contention that state-building is transforming the nature of sovereignty and democracy in the global South. It has become a mechanism of international regulation over countries that are seen to pose a threat to the international community, and positions the state as a mediator between international authority and domestic politics. The remit of state authority over questions of domestic and foreign policy is severely curtailed, with conditions of aid dependence

serving to lock states into a relationship of subordination to external authority. The result is the degradation of the meaning of sovereignty and democracy, and a restriction of the possibilities for national development to those prescribed by neo-liberal development policies. For all its claims, the process of national development being implemented is externally driven and highly disempowering, and the form of democracy that has been institutionalized through the state-building project lacks substance. These realities call into question the potential for equitable national development and democratic governance in subject states, and the long-term sustainability of the state-building project itself.

Chapter One: PEACE-BUILDING

Introduction

United Nations operations in Timor-Leste since 1999 have signaled a watershed in peace-building strategy. Whereas peace-building operations of the 1990s tended to bypass the state in their efforts to build peace after civil conflict, a significant intellectual shift in academic and policy-making circles towards the end of the decade saw a revitalization of the role of the state in post-conflict development activities. Informed by the failures of the 1990s, this approach to peace-building – known as state-building – attributes a high level of importance to state institutions in securing peace and development. This approach has been implemented to its fullest extent in Timor-Leste, where the United Nations has spearheaded an extensive state-building effort in concert with international organizations, donor governments, and NGOs.

The state-building strategy implemented in Timor-Leste illustrates the evolution of peace-building over the last two decades, and the convergence of development and security concerns in academia and policy-making circles. Peace-building in the 1990s was guided by a broad consensus on the importance of democratization and marketization for countries transitioning from civil conflict. This seemingly inexhaustible faith in the ability of market democracy to address a plethora of social ills has survived the failures of the first decade of peace-building. Despite renewed attention to the role of state institutions, the liberalization agenda continues to dominate the field. As will be seen, the new role for the state in peace-building represents not a retreat from market-based development, but an opportunity for extending and maintaining market reach in non-market societies. The following sections will outline the evolution of contemporary peace-building in light of the liberalization of development in recent decades and the reemergence of the liberal peace thesis.

The Evolution of United Nations Peace Operations:

Peace-keeping to Peace-building

During the Cold War period, the United Nations was largely limited to traditional peace-keeping functions, involving predominantly military tasks such as the deployment of lightly armed forces as a neutral international presence to monitor ceasefires and buffer zones between former combatants. Cold War politics and ideological differences, together with Charter restrictions regarding interference in domestic affairs, restricted the role of the UN in the domestic security issues of states.¹ As such, peace-keeping missions of this era sought merely to minimize external conflict, rather than to advance more fundamental goals to eradicate conflict and prevent its occurrence.²

With the end of the Cold War, the UN was afforded an opportunity for greater involvement in domestic affairs. Former client regimes of the United States and Soviet Union experienced a dramatic decrease in previous levels of military and economic assistance, particularly in Africa. Protracted conflicts in a number of countries necessitated the more direct involvement of the United Nations and other international organizations, particularly as 'superpower' interest in such conflicts waned.³ UN peace operations evolved rapidly from 1989, as UN missions carried out disarmament, facilitated elections, contributed to the writing of constitutions, conducted human-rights training and monitoring, and, in the case of Cambodia, even assumed administration of an entire country for a time.⁴

The term 'peace-building' gained entrance to the international lexicon in 1992 through then UN Secretary-General Boutros Boutros-Ghali's seminal report, *An Agenda for Peace*. This document heralded renewed opportunities for peace following the breakdown of the Cold War ideological divide, and outlined evolving forms of UN peace operations in response to new threats to security. In contrast to traditional 'peacekeeping' forces, which were largely limited to observational tasks, 'peace enforcement' missions constituted more heavily armed deployments authorized to use

¹ Paris, p. 15-16

² Ibid. p. 16

S. Ratner. (1995) *The New UN Peacekeeping: Building Peace in Lands of Conflict after the Cold War*. New York: St. Martin's Press, p. 1

³ Paris, p. 16

⁴ R. Paris and T. Sisk. (2009) *The Dilemmas of Statebuilding: Confronting the Contradictions of Postwar Peace Operations*. New York: Routledge, p. 4

force for defined goals. ‘Post-conflict peace-building’ constituted a third category, which sought to consolidate peace after civil conflict.⁵ In this initial manifestation, peace-building was conceived as post-conflict “action to identify and support structures which will tend to strengthen and solidify peace in order to avoid a relapse into conflict.”⁶ As perceptions of challenges to peace and security broadened to include non-traditional threats such as poverty, inequality, disease, famine, and even environmental degradation, it became clear that efforts to obtain peace and security “must encompass matters beyond military threats in order to break the fetters of strife and warfare that have characterized the past.”⁷

Peace-building functions continued to evolve throughout the 1990s in response to the experiences and perceived shortcomings of UN missions. Initially conceived of in relation to a conflict continuum, in which peace-building activities were reserved for the post-conflict period, by the mid-1990s the concept had broadened considerably to incorporate preventative measures and actions taken during conflict. The concept of peace-building in contemporary discourse is ambitious and wide in scope, aiming to eliminate the ‘root causes’ of war through poverty eradication, accountability and transparency, democratic governance, and respect for human rights, together with more immediate conflict-related concerns such as the repatriation of displaced persons, disarmament, and providing security.⁸ The publication of the Brahimi Report in 2000 helped to solidify these new attitudes to peace operations, reinforcing the links between military-based security objectives and wider peace-building goals.

In 2000 UN Secretary-General Kofi Annan convened the Panel on United Nations Peace Operations to conduct an assessment of UN peace and security operations and provide recommendations for improvement. The panel was chaired by Lakhdar Brahimi – future Special Adviser of the UN Secretary-General and UN envoy in Haiti, South Africa, Afghanistan, Iraq, and Syria – and is thus commonly referred to as the ‘Brahimi Report’. The findings of the Brahimi Report had a marked influence on subsequent UN peace operations. In particular, the report called for a ‘doctrinal shift’ within peace operations to accommodate a central emphasis on

⁵ B. Boutros-Ghali. (1992) *An Agenda for Peace: Preventive Diplomacy, Peacemaking and Peace-Keeping*. New York: United Nations.

⁶ Ibid. para. 21

⁷ Ibid. para. 13

⁸ C. Call and V. Wyeth. (2008) *Building States to Build Peace*. Boulder: Lynne Rienner Publishers, p. 5-6

conflict prevention and peace-building. Whilst the concept of peace-building had been gaining credence within the UN and beyond since the early 1990s, the Brahimi Report highlighted the interdependency between a broad approach to peace-building and the imperative of post-conflict security. Crucial peace-building tasks identified for future peace operations included electoral assistance, democratization, support for governance structures and political institutions, support for the rule of law and human rights, disarmament, reintegration and national reconciliation.⁹ Michael Lund argues that the issuing of the Brahimi Report lent authority to ideological shifts within the UN during the previous decade:

[W]hat used to be called just ‘peacekeeping’ in post-conflict settings has evolved into ‘second generation peacekeeping,’ then transmogrified into ‘peace operations,’ and now military activities are intricately linked to civil administration and other functions under the rubric of ‘post-conflict peacebuilding.’ With the issuing of the Brahimi Report in 2000, the interdependency of ensuring post-conflict security and achieving broader peacebuilding was made explicit and more official.¹⁰

The new post-conflict peace-building – as expounded and validated through the Brahimi Report and related policy developments – linked military activities to civil administration and other internal functions which had previously remained outside the remit of UN peace operations.¹¹

Liberal Peace Theory Rediscovered

Simultaneous to this evolution in UN peace operations has been the development of an increasingly vociferous democratization agenda. Concepts of democracy promotion form an integral element of democratic peace theory, which developed during the 1980s and 90s and have had a significant impact on conceptualizations of peace-building and post-conflict reconstruction. The assumptions of the ‘liberal peace’ have been internalized within peace-building discourse, and are evident in the promotion of market-based democracy as a panacea for post-conflict societies.

⁹ United Nations. (2000) Report of the Panel on United Nations Peace Operations. New York: United Nations.

¹⁰ M. Lund. (2003) What Kind of Peace Is Being Built? Taking Stock of Post-Conflict Peacebuilding and Charting Future Directions. Ottawa: International Development Research Centre, p. 6

¹¹ Ibid. p. 6

In 1983, Michael Doyle precipitated a resurgence of interest in liberal peace (or democratic peace) theory, taking Immanuel Kant's 'perpetual peace' argument and applying it to the modern era to contend that democratic states rarely fight each other, constituting a 'democratic peace'.¹² Previous works by academics such as Dean Babst and R. J. Rummel had highlighted such a trend in relationships between democratic nations, but Doyle's work received a wider readership and therefore greater attention. To support his claims, Doyle (like Rummel before him) carried out a systematic analysis of data on interstate war, which added empirical authority to the democratic peace proposition.¹³ Much of the research that followed this seminal work examined the relationship between liberal democracy and *interstate* violence, with the concept of democratic peace being hailed as the closest thing to "an empirical law in international relations".¹⁴ Further studies made links between liberal economic policies and the promotion of peaceful relations among democracies – a belief which received crucial support in the policy arena and was central to the Clinton administration's foreign policy of 'democratic enlargement'.¹⁵

The resurrection of Kantian democratic peace theory also stimulated interest in the relationship between liberal democracy and internal conflict. Foremost amongst these studies were the findings of Rummel, who argued that democracies are less likely to suffer from a range of violent domestic issues, with the violent tendencies evoked by social conflict being resolved in democratic processes of representation, negotiation and compromise.¹⁶ This position was supported by further studies, including a comprehensive 2001 Norwegian analysis of democracy and internal violence, which concluded that of all state political systems, established democracies are least vulnerable to civil conflict.¹⁷

¹² T. Smith. (2007) *A Pact with the Devil: Washington's Bid for World Supremacy and the Betrayal of the American Promise*. New York: Routledge, p. 97

M. Doyle. (1983a) Kant, Liberal Legacies, and Foreign Affairs. *Philosophy and Public Affairs* 12(3):205-35

———. (1983b) Kant, Liberal Legacies, and Foreign Affairs, Part 2. *Philosophy and Public Affairs* 12(4):323-53.

¹³ J. L. Ray. (1998) Does Democracy Cause Peace? *Annual Review of Political Science* 1(1):27-46, p. 31-32

¹⁴ J. Levy. (1988) Domestic Politics and War. *The Journal of Interdisciplinary History* 18(4):653-73, p. 662, as quoted in Smith (2007), p. 99

¹⁵ Paris, p. 42

¹⁶ R. J. Rummel. (1997) *Power Kills: Democracy as a Method of Nonviolence*. New Brunswick, N.J: Transaction, p. 85

¹⁷ Hegre et al. (2001) Toward a Democratic Civil Peace? Democracy, Political Change, and Civil War, 1816-1992. *The American Political Science Review* 95(1):33-48.

These views have been widely adopted in policymaking circles. Scholars with extensive links to the policy community, such as Larry Diamond in the United States, have been instrumental in translating academic debate into policy. Diamond has vocally supported democracy promotion both as a measure against interstate war and internal violence, bringing democracy promotion into the arena of national security as a preventive, defensive imperative.¹⁸ This equation of democratization with national and international security has been crucial in forging a broad consensus on the primacy of democratic forms of state organization.

These arguments reflect a long-standing tradition of American democracy promotion, beginning with the presidency of Woodrow Wilson. Wilson believed that democratic states were inherently more stable and peaceful than other political systems, thus forming the most appropriate building blocks for a peaceful international system.¹⁹ Wilson's Fourteen Points speech to Congress in January 1918 outlined a political vision that set the tone of American foreign policy throughout the following century. He argued for an international system composed of states based on the consent of the governed and the rule of law, a community of market democracies bound together by commercial interests and respect for international law.²⁰ Although Wilson's primary concern was interstate conflict, the international peace he expounded would be based on political stability within states, dependent on the democratic self-determination of all peoples. Wilson was the first public official to articulate such a strategy of democracy promotion – now called the liberal peace thesis, or democratic peace theory. Contemporary peace-building is based on similar assumptions, such as beliefs in the ability of democratization and marketization to foster peace in countries emerging from civil conflict.²¹

A suitable definition of 'democracy' has been much contested by democratic peace proponents. Many past systems for assessing democracy have been accused of

¹⁸ Paris, p. 44; Smith (2007), p. 115

For examples of Diamond's academic works in the area of democracy promotion, see L. Diamond. (1994) The Global Imperative: Building a Democratic World Order. *Current History* 93(579):1-7; L. Diamond. (2006) Promoting Democracy in Post-Conflict and Failed States: Lessons and Challenges. *Taiwan Journal of Democracy* 2(2):93-116.

¹⁹ T. Smith. (2000) National Security Liberalism and American Foreign Policy. In *American Democracy Promotion: Impulses, Strategies, and Impacts*, edited by Michael Cox, G. John Ikenberry and Takashi Inoguchi, pp. 85-102. Oxford: Oxford University Press, p. 93

²⁰ Ikenberry et al. (2009) *The Crisis of American Foreign Policy: Wilsonianism in the Twenty-First Century*. Princeton: Princeton University Press, p. 10-11

²¹ Paris, p. 40-41

subjectivity, ethnocentricity, inconsistency or incomplete data, and bias.²² Democratic governments are typically conceived of as receiving authority on the basis of consent and popular legitimacy, and responding to the wishes of their constituents. However, governments of vastly different structures and political leanings can be perceived as responsive to the needs and desires of their constituents – many of which are decidedly undemocratic in nature. Advocates of democratic peace theory have generally assumed a procedural view of democracy, emphasizing competitive elections, universal suffrage, rule of law, civil rights and freedoms such as freedom of speech and the press.²³ The values often reflected in these conceptions of democracy are the products of the American political experience,²⁴ which becomes problematic when applied to non-Western contexts with no historical experience of liberal democracy.²⁵ Attempts by peace-building advocates to normalize systems of political and social (and economic) organization based on the principles of liberal peace have proved more difficult than anticipated, necessitating more intrusive measures to institutionalize liberal democratic structures.

Democratization and the United Nations

The growth of democratic peace theory complemented the democratic preferences of the United Nations, although democracy promotion remained a controversial subject until the early 1990s.²⁶ During the Cold War, the United Nations was prevented by East-West ideological differences from promoting particular forms of domestic governance. While both the Soviet bloc and the US and its allies promoted certain forms of democracy, and non-aligned developing countries promoted their own brand of developmental democracy, disagreement persisted over the nature and meaning of democracy itself. Thus, despite near-universal support for democracy in some form, the United Nations avoided advocating particular models of democratic governance. This distancing of the organization from domestic matters – a

²² S. Chan. (1997) In Search of Democratic Peace: Problems and Promise. *Mershon International Studies Review* 41(1):59-91, p. 65

²³ Ray, p. 31-32

²⁴ Chan, p. 65

²⁵ A. Bendaña. (2005) From Peacebuilding to State Building: One Step Forward and Two Steps Back? *Development* 48(3):5-15, p. 8

M. A. Brown et al. (2010) Challenging Statebuilding as Peacebuilding: Working with Hybrid Political Orders to Build Peace. In *Palgrave Advances in Peacebuilding: Critical Developments and Approaches*, edited by Oliver P. Richmond, pp. 99-115. Houndmills: Palgrave Macmillan, p. 100

²⁶ O. Tansey. (2009) *Regime-Building: Democratization and International Administration*. Oxford: Oxford University Press, p. 26

central tenet of the UN Charter – was manifested in the strict operational neutrality observed by UN peace operations of the time, and the refusal to intervene in internal affairs that saw these missions largely limited to the role of monitoring cease-fires.²⁷

With the end of the Cold War, many commentators and policymakers perceived the collapse of the Soviet Union as indicative of a worldwide triumph of market democracy. This mood was exemplified in an influential 1989 article by Francis Fukuyama, which proclaimed the end of the Cold War as signifying the victory of economic and political liberalism and the potential “end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government.”²⁸ The perceived victory of liberalism over socialism and the premises of democratic peace theory provided a powerful impetus for policymakers in nations such as the United States and Britain to promote the spread of liberal democratic governance as a means of achieving peace in international relations.

The erosion of ideological barriers to democracy promotion in the UN also facilitated a strong intellectual shift in support of democratization, evident in the arguments of Secretaries-General Boutros Boutros-Ghali and Kofi Annan. Boutros-Ghali spearheaded the emerging consensus on democratic governance in the UN in the 1990s and articulated a central role for the organization in promoting it.²⁹ In *An Agenda for Democratization*, Boutros-Ghali hailed the international shift to democracy for “contribut[ing] to preserving peace and security, securing justice and human rights, and promoting economic and social development.”³⁰ Democratic states not only reduce the risk that disputes will lead to violent conflict, he argued, they “are more likely to promote and respect the rule of law, respect individual and minority rights, [and] cope effectively with social conflict”.³¹ Not only are they less prone to abuses of power, he asserted that democratic states foster “the evolution of the social contract upon which lasting peace can be built.”³² This brought democratic systems of

²⁷ Paris, p. 15-16

²⁸ F. Fukuyama. (1989) The End of History? The Globe and Mail, A7. Online at <http://canterbury.summon.serialssolutions.com/link/0/eLvHCXMwQ7QykcSDI8LIAbDlb2GiawY-3xWxARapsHcTZZB1cw1x9tCFZrxKTK58aCJMTNgs9_QkO-43CrtzgcuExp1fHd9nxGYDAB1viqy> (Accessed 16 August 2012)

²⁹ See B. Boutros-Ghali (1992), and in particular B. Boutros-Ghali. (1996) *An Agenda for Democratization*. New York: United Nations.

³⁰ Boutros-Ghali (1996), para. 17

³¹ Ibid

³² Ibid

political organization into the sphere of peace-building, paving the way for attempts to foster democratic structures in post-conflict countries.

Kofi Annan was also outspoken in his support for democracy promotion. He argued that such a strategy is a highly effective means of conflict prevention – both internally and between states – based on an historic tendency of democratic states not to go to war with one another, and the ability of democratic governance to peacefully resolve internal dissent, thus avoiding civil conflict.³³ The success of the democratic method of “non-violent conflict management”, he claimed, is borne out by studies that demonstrate lower levels of violence in democratic states than in non-democracies.³⁴ The democratic principle, he argued, has universal recognition and relevance and the challenge is to ensure its universal application.³⁵

As the international body with primary responsibility for matters of peace and security and the pre-eminent institution of international law, the support of the UN for democratization and the precepts of ‘liberal peace’ theory has ensured their wide acceptance. That the UN remains the only body with the undisputed authority to confer legitimacy on international military action demonstrates its ongoing centrality in international affairs. In its support of democratization for achieving both international and internal peace, the UN has ensured that this approach to conflict prevention and management achieves primacy. Its subsequent, widespread adoption by international financial institutions, development agencies, national governments, and non-governmental organizations – not to mention its uncritical acceptance by many academics and researchers³⁶ – has occurred largely due to the propagating role of the UN. It is highly unlikely that the works of scholars such as Doyle and

³³ K. Annan. (27 June 2000) Towards a Community of Democracies. UN Secretary General Kofi Annan's Closing Remarks. Warsaw: Council for a Community of Democracies. Online at <<http://ccd21.org/articles/annanwarsaw.htm>> (Accessed 15 December 2014)

³⁴ ———. (19 October 1999) Peace and Development: One Struggle - Two Fronts. Address of the United Nations Secretary-General to World Bank Staff. Washington D.C.

³⁵ Annan (27 June 2000)

³⁶ Most prominent academic works regarding issues of peace, conflict prevention, and development assume a central role for mechanisms and principles of liberal market democracy. See P. Collier et al. (2003) *Breaking the Conflict Trap: Civil War and Development Policy*. Washington, D.C.; Paris; C. Peck. (1998) *Sustainable Peace: The Role of the UN and Regional Organizations in Preventing Conflict*. Lanham, Maryland: Rowman & Littlefield. Online at <<http://onlinebooks.library.upenn.edu/webbin/book/lookupname?key=Peck,Connie>> (Accessed 9 December 2014); R. Rotberg. (2002a) The New Nature of Nation-State Failure. *The Washington Quarterly* 25(3):83-96; A. Ghani et al. (2005) *Closing the Sovereignty Gap: An Approach to State-Building*. London: Overseas Development Institute; A. Ghani and C. Lockhart (2008) *Fixing Failed States: A Framework for Rebuilding a Fractured World*. Oxford: Oxford University Press.

Diamond, and even the policies of individual governments, could have produced such international consensus on the premises of liberal peace without this crucial support.

Thus the concept of liberal peace has come to pervade the most influential arenas of the international system, and has become the prevailing orthodoxy in the field of peace-building. The following sections will outline the evolution of United Nations peace operations, with a focus on the development of a peace-building framework in the early 1990s.

Understanding Conflict and Building Peace

During the Cold War, two separate ‘sets of architecture’ were established to address the spheres of socio-economic development and peace and security.³⁷ Issues such as development, poverty, social injustice, and disease were considered matters of domestic jurisdiction, and as such international agencies including specialized UN departments, bilateral and multilateral donors, and Bretton Woods institutions sought to support sovereign states in providing for human needs through official development and humanitarian assistance programmes.³⁸ However, the bulk of financial resources and effort was reserved for the realm of peace and security, with the United Nations – the institution entrusted with ensuring international peace and security – effectively sidelined due to East-West rivalry while new security organizations affiliated with the great power blocs were created outside the UN framework.³⁹

As discussed above, the end of the Cold War was a time of tremendous optimism in international relations. Ideas of an era of peace and a ‘new world order’ were expounded, boosting hopes for a time of nuclear disarmament, increased international cooperation, greater equality, and respect for human rights. Despite the

³⁷ N. Tschirgi. (2003) Peacebuilding as the Link between Security and Development: Is the Window of Opportunity Closing? In *Strengthening the Security - Development Nexus: Conflict, Peace and Development in the 21st Century*. New York. Online at http://www.un.org/esa/peacebuilding/Library/Peacebuilding_as_link_IPA.pdf (Accessed 11 December 2014)

³⁸ The provision of development assistance outside of the United Nations system also characterized the Cold War period, with development activities in client states forming a key part of great power rivalry. The Cold War conflict between East and West was played out largely in the global South (or ‘third world’), where the support of client states was assured through various forms of economic and military assistance. In this context, development was viewed as a crucial element of security strategy. Western policy-makers in particular feared that conditions of poverty in the ‘third world’ would act as a breeding ground for communism, and promoted development as a means of communist containment. See Abrahamsen, p. 19; G. Rist. (2008) *The History of Development: From Western Origins to Global Faith*. Third ed. London: Zed Books, p. 80-93

³⁹ Tschirgi

horrific patterns of civil conflict which began to emerge – dampening initial prophecies of a ‘peace dividend’ – UN peace operations were launched in an atmosphere of heightened optimism regarding ability of liberal principles to provide solutions to a proliferation of internal conflicts. The way conflict was, and continues to be understood – in particular the causes of conflict – contributed to this optimism. In this context, post-Cold War responses to conflict facilitated a historic convergence of the formerly disparate spheres of development and security, which has been pivotal in the emergence of the peace-building project.

Conflict Trends in the 1990s: Domestic Conflict

In the early 1990s, the alarming incidence and impacts of internal conflict began to gain increasing attention from policymakers and analysts. Civil wars constituted 94 per cent of armed conflicts waged in the 1990s, exacting an unprecedented toll on civilians. The targeting of civilians emerged as a common theme in civil conflicts in this period, including tactics such as systematic rape, torture, mass executions, ethnic cleansing, and genocide. It has been estimated that during the 1990s, 90 per cent of deaths in armed conflicts were civilians – an inversion of the situation at the beginning of the twentieth century, when approximately 90 per cent of war victims were soldiers.⁴⁰ Internal conflicts during the final decade of the century claimed the lives of approximately five million people, displacing many millions more and sparking mass refugee movements.⁴¹

Aside from concern over the devastating humanitarian costs of internal conflict, civil unrest was also – and continues to be – perceived as a threat to regional and global stability. Roland Paris identifies the mass movement of refugees and the spread of conflict across international borders as factors contributing to regional instability. Few examples have demonstrated this danger more clearly than the case of the Rwandan genocide in 1994. During the conflict, mass population movements into refugee camps in eastern Democratic Republic of Congo contributed to an internal and regional conflict that claimed the lives of millions of people, and has left a legacy of instability in the region that continues to this day.⁴²

⁴⁰ Paris, p. 1

⁴¹ United Nations Development Programme. (2000) Human Development Report 2000: Human Rights and Human Development. New York: UNDP, p. 6

⁴² Paris, p. 2

Paul Collier et al. argue that civil war destabilizes surrounding countries politically and economically, provoking regional arms races, economic disinvestment, and trade disruption.⁴³ Refugee flows across borders facilitate the spread of infectious disease – in particular malaria and HIV/AIDS – into neighbouring countries, and present a financial burden for the governments of asylum countries.⁴⁴ A strong correlation is made between the humanitarian effects of internal conflict and wider regional security implications.

Political commentators also draw links between internal conflict and transnational crime and terrorism, arguing that conditions of civil unrest allow criminal and terrorist networks to operate with impunity – a danger that is taken to extend across borders given contemporary advanced communication technology and ease of travel.⁴⁵ The UN has acknowledged the threat-magnifying potential of these technological innovations:

The technological revolution that has radically changed the worlds of communication, information-processing, health and transportation has eroded borders, altered migration and allowed individuals the world over to share information at a speed inconceivable two decades ago. Such changes have brought many benefits but also great potential for harm. Smaller and smaller numbers of people are able to inflict greater and greater amounts of damage, without the support of any State. A new threat, transnational organized crime, undermines the rule of law within and across borders.⁴⁶

In the wake of the September 2001 terrorist attacks, conditions of internal unrest in Afghanistan have been viewed as fostering international terrorism and destabilizing the region.⁴⁷ This conflict, and its association with regional instability, international crime (such as drug trafficking), and terrorism, has been interpreted by many as an exemplar of the consequences of failing to address internal conflict.⁴⁸ Terrorism has become an issue of primary importance in foreign and domestic policy in the twenty-first century, and its perceived links with internal instability have

⁴³ Collier et al. p. 33-35

⁴⁴ Ibid. p. 35-41

⁴⁵ Ibid. p. 47-48

United Nations (2004), p. 19

⁴⁶ United Nations (2004), p. 19

⁴⁷ Paris, p. 2

⁴⁸ Ibid. p. 2

Collier et al.; Ghani and Lockhart, p. 25; United Nations (2004), p. 45-46

heightened the sense of urgency amongst policymakers and analysts to address civil conflict.

Mary Kaldor describes contemporary patterns of conflict as ‘new wars’ – a form of organized violence which emerged in the 1980s and 1990s.⁴⁹ Such conflicts are typified by the blurring of traditional distinctions between ‘war’ as violence between states or political groups for political motives; organized crime by privately organized groups, largely for financial purposes; and large-scale violations of human rights perpetrated against civilian targets. While the majority of these wars are localized – and as such are frequently described as internal or civil wars – they are also becoming increasingly globalized in their connections to transnational networks including criminal organizations, ethnic diasporas, international media, NGOs and international organizations.⁵⁰

The emergence of new wars is attributed to the erosion of traditional state sovereignty, and in particular the erosion of monopolies on legitimate organized violence, resulting in increasing privatization of violence. As a result, the fighting encompasses a range of groups including paramilitaries, warlords, criminal gangs, police forces, mercenaries, and regular armies. Politics of identity – rather than ideology or state-interest – are held to be the key factors in claims to power, and new wars are waged to gain political control of populations through techniques of fear and destabilization. As a result, the majority of violence is directed at civilians, resulting in massive violations of human rights and forced displacement.⁵¹

According to this estimation, the framework of identity politics offers no possible long-term solutions for the new conflicts, as they tend to exacerbate the conditions and cleavages within society which first contributed to the outbreak of violence. Kaldor believes that the only resolution is the establishment of legitimacy based on an inclusive, cosmopolitan set of democratic values. She calls for a form of cosmopolitan law enforcement to defend international humanitarian and human rights standards, and protect victims of violent conflict. Dismissing long-standing debates over intervention, she claims that the modern context has rendered the very concept of

⁴⁹ While common perceptions attribute the prevalence of civil war in the 1990s to an altered environment in the post-Cold War period, a number of scholars refute this claim. James Fearon and David Laitin suggest that this phenomenon has resulted from an accrual of protracted civil conflicts since the mid-twentieth century. See Fearon and Laitin, p. 9

⁵⁰ M. Kaldor. (1999) *New and Old Wars: Organized Violence in a Global Era*. Cambridge, UK: Polity Press.

⁵¹ Ibid

‘non-intervention’ void due to unprecedented levels of external involvement in internal conflicts – the provision of aid being the most potent example.⁵² Such arguments disregard – or significantly undermine – sovereignty considerations in situations of civil conflict. Kaldor’s claim that new wars are symptomatic of an erosion of sovereignty lends itself to a ‘continuum’ approach to sovereignty, in which objections to intervention can be overcome by reference to the break down or absence of state sovereignty, and may even be justified as a necessary measure towards the restoration of sovereignty.⁵³ Such interpretations gained momentum in the 1990s, as the UN struggled to reconcile its obligation to ensure peace and security with the doctrine of non-intervention. The reconceptualization of security in terms of ‘human security’ and sovereignty as ‘responsibility’ appeared to offer a resolution to this dilemma.

Human Security and the Decline of State Sovereignty

Initially created to address interstate conflicts, the United Nations – as the international body entrusted with responsibility for international peace and security – struggled to combat the proliferation of civil conflicts in the post-World War Two era. In light of the appalling civilian casualties associated with the ‘new’ wars, the issue of humanitarian intervention came to receive unprecedented attention in the 1990s. Shifting attitudes to sovereignty spurred by attempts to resolve the sovereignty-intervention dilemma have been instrumental in paving the way for the unprecedented scope of international intervention in post-conflict environments in the twenty-first century.

Central to the UN Charter are principles of state sovereignty and non-intervention, with Article 2(4) prohibiting the use of force by any state against the territorial integrity or political independence of other states. Exceptions to the international prohibition against the use of force include actions taken in self-defense, or forcible action to maintain international security, authorized by the Security Council in accordance with the provisions of Chapter VII of the Charter.⁵⁴ While respect for human rights is also enshrined in the UN Charter, no provisions exist for

⁵² Ibid

⁵³ Ignatieff, Chandler (2006), p. 33-36

⁵⁴ United Nations. (1945) Charter of the United Nations. San Francisco: United Nations. Online at <<http://www.un.org/en/documents/charter/>> (Accessed 9 December 2014)

humanitarian intervention outside of Security Council authorized operations.⁵⁵ However, the consequences of international indifference to a number of civil conflicts in the 1990s – in particular the genocidal violence in Rwanda – led to attempts to reconcile contemporary humanitarian imperatives with the concept of security.⁵⁶ This linkage was achieved through the championing of a new ‘human security’ agenda, signifying a shift away from traditional concepts of state security.⁵⁷

In a speech to delegates at the annual gathering of the UN General Assembly in 1999, Kofi Annan proclaimed the need for UN and the international system to adapt to the new realities of the international system. Annan argued that growing recognition of the importance of ‘individual sovereignty’ – understood as individual rights and freedoms – had contributed to the redefinition of state sovereignty, and magnified the imperative to protect individual human beings:

State sovereignty is being redefined ... States are now widely understood to be instruments at the service of their peoples, and not vice versa. ... At the same time individual sovereignty ... has been enhanced by a renewed and spreading consciousness of individual rights. When we read the charter today, we are more than ever conscious that its aim is to protect individual human beings, not to protect those who abuse them.⁵⁸

In the Secretary-General’s Millenium Report the following year, Annan appealed to the international community to find a way past the sovereignty dilemma in order to respond to “gross and systematic violations of human rights”.⁵⁹ In 2001, the International Commission on Intervention and State Sovereignty was formed under the auspices of the Canadian government to examine this question.

The Commission proposed a reconceptualization of sovereignty from traditional territorial notions of sovereignty to ‘sovereignty as responsibility’. This doctrine – known as the Responsibility to Protect – claims that the international community has a responsibility to protect civilians in countries where governments

⁵⁵ R. Thakur. *The United Nations, Peace and Security: From Collective Security to the Responsibility to Protect*. Cambridge: Cambridge University Press, p. 205

⁵⁶ J. L. Holzgrefe. (2003) The Humanitarian Intervention Debate. In *Humanitarian Intervention: Ethical, Legal, and Political Dilemmas*, edited by J. L. Holzgrefe and Robert O. Keohane, pp. 15-52. Cambridge: Cambridge University Press, p. 17

⁵⁷ Thakur

⁵⁸ K. Annan. (16 September 1999) Two Concepts of Sovereignty. *The Economist* 352(157):49.

⁵⁹ ———. (2000b) We the Peoples: The Role of the United Nations in the 21st Century. New York: United Nations, p. 48

are unwilling or unable prevent large-scale human rights abuses.⁶⁰ This normative shift was driven by a novel approach to security that located security at the individual level – a ‘human security’ approach responsive to the needs, rights, and welfare of individual human beings.

The concept of human security was pioneered by the 1994 Human Development Report of the United Nations Development Programme, which emphasized the security of individuals as an alternative to traditional state-centred notions of security.⁶¹ Rejecting these limited concepts of security, which focused on aspects such as territorial protection against external aggression, the defense of national interests, and global security from the nuclear threat, the report argued that the time had come “to make a transition from the narrow concept of national security to the all-encompassing concept of human security.”⁶² The report outlined two primary components of human security – freedom from fear and freedom from want – both concepts that had been enshrined in the United Nations Charter, but had since been tilted in favour of the former component at the expense of the latter. Facilitating this shift in emphasis would require a move from “security through armaments to security through sustainable human development.”⁶³ From a primary focus on the physical security of states from aggression, perceived threats to human security came to encompass matters of economic security, food security, health security, environmental security, personal security (security from violence emanating from oneself, individuals, groups, the state, or other states), community security, and political security.⁶⁴

Human security represents a cornerstone of the new normative framework that developed in the 1990s – a framework that conceives of human needs and welfare not only within the realm of human rights, but as security concerns. Acknowledging that threats to human security extended beyond the traditionally narrow conception of physical security – which equated security primarily with issues of violence and conflict – the human security framework also asserted that failure to ensure broader

⁶⁰ International Commission on Intervention and State Sovereignty. The findings of the commission will be explored in greater detail in Chapter Three.

⁶¹ United Nations Development Programme. (1994) Human Development Report 1994: New Dimensions of Human Security. New York: UNDP.

⁶² Ibid. p. 24

⁶³ Ibid. p. 24

⁶⁴ Ibid. p. 24-25

human security outcomes in the context of human development⁶⁵ increases the potential for violent conflict. The authors warned that “(f)ailed or limited human development leads to a backlog of human deprivation – poverty, hunger, disease or persisting disparities between ethnic communities or between regions. This backlog in access to power and economic opportunities can lead to violence.”⁶⁶ This notion provided a link between previously distinct terrains of development and security, and formed a pillar of the emergent peace-building agenda.

The attenuation of state sovereignty that accompanied the rise of the human security agenda has likewise been fundamental to the evolution of peace-building. *An Agenda for Peace* hinted at a new role for the state within the framework of UN peace operations. Whilst acknowledging that the state must remain central to peace activities and its sovereignty respected, Boutros-Ghali argued that the “time of absolute and exclusive sovereignty ... has passed ... It is the task of leaders of states today to understand this and to find a balance between the needs of good internal governance and the requirements of an ever more interdependent world.”⁶⁷ This new approach to statehood has facilitated new levels of interventionism in subject states as part of the peace-building process. The role of the state in peace-building activities will be discussed in the following chapter on state-building.

The Emergence of the ‘Security-Development Nexus’

With the transcendent liberalism of the post-Cold War period came greater attention to the causes of conflict in an effort to stem the devastating impacts of civil violence. The dominant interpretation that emerged located the underlying causes of conflict in conditions of underdevelopment. A dominant interpretation in liberal circles, this linkage between underdevelopment and conflict demands that conditions of underdevelopment be addressed.⁶⁸ Such conditions – while dangerous, in that they

⁶⁵ Human security and human development are related but distinct concepts. The two concepts are taken to be mutually enforcing, with progress in one area believed to improve the potential of progress in the other. Human development is a concept of development that focuses on ‘enlarging people’s choices’. The human development approach incorporates a wide range of areas in order to advance human well-being, including health, education, living conditions, human rights, and political, social, and economic freedoms.

See UNDP (1994); United Nations Development Programme. (1990) Human Development Report 1990. New York: UNDP, p. 10

⁶⁶ UNDP (1994), p. 23

⁶⁷ Boutros-Ghali (1992), para. 17

⁶⁸ Despite the broad consensus amongst the international community regarding the relationship between conflict and underdevelopment, silence is maintained regarding the deep structural violence wrought by the unequal integration of countries of South into the global economy, and the ongoing

are seen as posing a threat to both domestic and international security – are seen as amenable to remedy; liberal development is seen as providing the solution to conflict, both as a preventive measure and as a means of post-conflict rehabilitation.⁶⁹ Mark Duffield argues that the merging of development and security signifies the radicalization of development, whereby development policy seeks to bring about social transformation in order to eliminate violent conflict. The association of underdevelopment with a high risk of conflict has become a core assumption within development discourse.⁷⁰

Common approaches to conflict analysis attribute causation to specific groupings of factors, often involving long-term factors, trigger factors, and factors generated by conflict itself that further entrench patterns of violence. The UN report ‘Developing National Sustainable Development Strategies in Post-Conflict Countries’ identifies root or structural causes, destabilizing or proximate factors, and trigger factors in the onset and perpetuation of violence.⁷¹ Structural causes are long-term in nature, and include factors such as social or political marginalization, inequality, and unequal access to resources. These contextual factors are central to conflict, but require a spark to trigger the onset of violence. Such trigger factors – for example an event such as an assassination or coup d’état – translate the conflict potential provided by structural causes into violence. Destabilizing or proximate factors are factors that perpetuate conflict, a frequently cited example being that of war economies. Certain actors and groups are understood to benefit from conflict, deriving profit from illicit activities such as the plunder of natural resources or drug trafficking. These commercial interests provide a motive for the continuation of violence.⁷²

implications of this reality for poverty and underdevelopment in the South. A number of critical commentators have highlighted this ‘silence’ regarding the structural causes of conflict, with a tendency to focus on internal factors contributing to conflict, such as ethnic tensions or corruption, whilst overlooking the role of external structural factors such as global economic structures. See C. Schellhaas and A. Seegers. (2009) Peacebuilding: Imperialism's New Disguise? *African Security Review* 18(2):1-15, p. 9; M. Pugh (2005) The Political Economy of Peacebuilding: A Critical Theory Perspective. *International Journal of Peace Studies* 10(2):23-42, p. 32-33

⁶⁹ Duffield, p. 113-14

⁷⁰ Ibid. p. 115

⁷¹ United Nations Department of Economic and Social Affairs Division for Sustainable Development. (n.d.) Developing National Sustainable Development Strategies in Post-Conflict Countries (Working Draft). New York: United Nations. Online at <http://sustainabledevelopment.un.org/content/documents/guidancenotes.pdf> (Accessed 21 December 2012), p. 26

⁷² Ibid. p. 23-24

This argument has been influentially propounded by the economist Paul Collier, who associates the onset of conflict with a combination of grievances and greed. Grievance – or structural causes – are seen as providing a powerful means of mobilizing support in civil conflict, with the leaders of warring

The role of structural factors in the onset of conflict is a primary concern in conflict analysis. The prevalence of conflict in the global South in the post-Cold War period has suggested a close correlation between underdevelopment and conflict.⁷³ According to the World Bank, empirical evidence demonstrates that civil war is heavily concentrated in ‘developing’ countries – particularly those with the lowest development outcomes. Arguing that poverty increases the chances of civil war, Paul Collier et al. hypothesize that “the key root of civil conflict is the failure of economic development.”⁷⁴ Further, the authors assert that once conflict has occurred, countries become locked into a pattern of continuing conflict, known as a ‘conflict trap’.⁷⁵ Factors such as low average income, unequal distribution of income, the presence of two or three ethnic groups, significant natural resource endowments, and the development of war economies are held to contribute to conflict duration and the likelihood of relapses into violence.⁷⁶ Socio-economic changes associated with war, such as emigration, increased military spending, altered patterns of resource and income distribution, and legacies of hatred are also seen as placing societies at a higher risk of reverting to conflict.⁷⁷ ‘Breaking’ post-conflict countries out of this conflict trap is thus considered essential for successful peace-building operations.

Given the high level of attention paid to economic factors as a primary structural cause of civil conflict, it is unsurprising that peace-building reflects a developmental agenda. Duncan Brack argues that sustainable development acts as a ‘counter’ to conflict and insecurity. His economically-driven argument exemplifies much contemporary thought linking peace and development:

Figures derived from World Bank econometric models show a striking relationship between the wealth of a nation and its chances of having a civil war. A country with a gross domestic product (GDP) of \$250 per capita has a predicted probability of war beginning at some point over the following five years of 15 per cent ... This probability reduces by half for a country with

parties often increasingly motivated by greed as the profits reaped by illegal activities accumulate. Such arguments are closely related to the concept of the ‘resource curse’, which posits that countries which are richly endowed with natural resources are more likely to experience violent conflict due to the higher profits available from illicit commercial activity.

See P. Collier and A. Hoeffler. (2004) Greed and Grievance in Civil War. *Oxford Economic Papers* 56(4):563-95.

⁷³ Duffield

⁷⁴ Collier et al. p. 53

⁷⁵ Ibid. p. 53

⁷⁶ Ibid. p. 81-83

⁷⁷ Ibid. p. 84-88

GDP of \$600 per capita, and by half again, to less than 4 per cent, for a country with \$1250 per head; countries with GDP of over \$5000 per capita have a less than 1 per cent chance of experiencing civil conflict.⁷⁸

In this estimation, civil war not only destroys a country's development gains, it springs from the failure of development itself.⁷⁹

With developmental failures now viewed as an important source of internal conflict, threats to peace – both at the domestic and the international level – have been increasingly broadly defined, as demonstrated in the following excerpt from the 2004 High-Level Panel on Threats, Challenges and Change:

Poverty, infectious disease, environmental degradation and war feed one another in a deadly cycle. Poverty ... is strongly associated with the outbreak of civil war. Such diseases as malaria and HIV/AIDS continue to cause large numbers of deaths and reinforce poverty. Disease and poverty, in turn, are connected to environmental degradation; climate change exacerbates the occurrence of such infectious disease as malaria and dengue fever. Environmental stress, caused by large populations and shortages of land and other natural resources, can contribute to civil violence.⁸⁰

The linking of development and security has been a central feature of the post-Cold War intellectual landscape, one that is now accepted throughout international organizations, NGOs, the policy arena and academia alike. Furthermore, locating the causes of conflict in conditions of underdevelopment implies a clear method of countering the various security threats thought to spring from such conditions.

Collier et al. examine links between civil war and underdevelopment in an attempt to identify development policies that may counteract the current trend of conflict in 'developing' countries. They argue that countries locked in the conflict trap (as discussed above) together with 'marginalized developing countries' suffer the greatest risk of conflict. 'Marginalized developing countries' comprise states that have been unable to sustain policies and institutions deemed necessary for achieving economic growth and diversity beyond dependence on primary commodities.⁸¹ The combination of low income, economic decline, and dependence on primary commodity exports are held to markedly increase a country's risk of conflict.⁸² Many

⁷⁸ O. Brown et al. (2007) *Trade, Aid and Security: An Agenda for Peace and Development*. London: Earthscan, p. 4

⁷⁹ Collier et al. p. ix

⁸⁰ United Nations (2004), p. 20

⁸¹ Collier et al. p. x

⁸² Ibid. p. 101

post-conflict countries exhibit all of these characteristics, placing them at an even greater risk of further conflict. Collier et al. contend that is imperative that such states are ‘brought into mainstream development’ and subjected to international interventions to ensure social stability in the critical first post-conflict decade.⁸³

In addition, the World Bank-commissioned report argues that newly independent countries are at a much higher risk of conflict than other countries. A combination of weak institutions and legacies of decolonization is held to render new states five times more conflict-prone in their first years of independence than older states which have arisen from similar circumstances. That the majority of the world’s new states – such as South Sudan and Timor-Leste – are low-income developing countries is believed to further double their risk of conflict, rendering newly independent, developing countries 10 times more vulnerable to civil conflict than other countries.⁸⁴

Peace-building is thus conceived of as ameliorating the structural causes of conflict, by eliminating the contributing factors of underdevelopment, inequality, and marginalization. Traditional security-oriented aspects of peace-building – such as disarmament of combatants and the establishment of local security, generally through international contingents under UN auspices – are complemented by a more radical commitment to reverse the conditions which gave rise to violence in the first place, thus laying the groundwork for lasting peace. As these conditions have been increasingly associated with underdevelopment in the last two decades, development has become of paramount concern in contemporary peace operations. The UN High Level Panel on Threats, Challenges and Change reflects the centrality of development to contemporary security concerns, arguing that development must form the basis of conflict prevention strategies:

In describing how to meet the challenge of prevention, we begin with development because it is the indispensable foundation for a collective security system that takes prevention seriously. It serves multiple functions. It helps combat the poverty, infectious disease and environmental degradation that kill millions and threaten human security. It is vital in helping States prevent or reverse the erosion of State capacity, which is crucial for meeting almost every class of threat. And it is part of a long-term strategy for

⁸³ Ibid. p. x

⁸⁴ Ibid. p. 98

preventing civil war and for addressing the environments in which both terrorism and organized crime flourish.⁸⁵

These deep associations between conflict and underdevelopment have brought about a strategic alignment of the development and security communities. The peace-building efforts generated by this convergence are viewed as both a moral and a strategic necessity – essential for ensuring the security and stability of individual states, surrounding regions, and the wider international system. These initiatives are also seen as critical for promoting human well-being – or human security – by ensuring levels of economic development deemed necessary for fulfilling human needs and promoting human rights through a commitment to the rule of law in newly-emergent, reconstructed states emerging from civil conflict.

Conclusion

Contemporary peace-building initiatives seek to respond to existing conflicts and to pre-empt the emergence of such conflicts by eradicating conditions of underdevelopment and human insecurity. This approach entails a historic convergence of the security and development communities, brought about by the moral and strategic imperative to address multi-level threats to human security, state security, and regional security stemming from contemporary conflict. The scope of peace-building activities since the 1990s has been informed by this interrelationship between underdevelopment and conflict, with peace-building initiatives now incorporating a range of non-traditional measures such as health policies, environmental initiatives, and poverty alleviation strategies in order to promote sustainable peace and development.

The reemergence of liberal peace theory has played a pivotal role in the evolution of international peace-building efforts. The equation of liberal democracy with domestic and international peace has given rise to a powerful international consensus in favour of democratization, and has shaped the policies and aspirations of peace-building operations. Conditions of underdevelopment and the absence of liberal democracy in the global South have been problematized as the source of conflict and instability, whereas liberal development is upheld as the panacea for instability, conflict, and underdevelopment. This ideological consensus has contributed to the internalization of the assumptions of liberal peace theory within contemporary peace-

⁸⁵ United Nations (2004), p. 12-13

building policy – particularly concepts of market-led development, economic and political liberalization and procedural democracy.

This liberal peace-building vision has been afforded unprecedented scope for action in light of the devastating costs of conflict and human insecurity throughout the 1990s. The goal of eradicating underdevelopment and implementing a liberal vision for sustainable peace and development amounts to no less than the social, economic, and political transformation of underdeveloped or war-affected countries. Duffield describes this process as “a radical developmental agenda of social transformation”; the liberal peace-building agenda amounts to a distinctly “political project ... [that aims] to transform the dysfunctional and war-affected societies that it encounters on its borders into cooperative, representative and, especially, stable entities.”⁸⁶ However, this ambitious project has failed to fulfill its mandate, as the appalling civilian costs of conflict in the 1990s and into the twenty-first century suggests. The failure of peace-building missions to respond successfully to such conflicts raised questions about the viability of the liberal peace project, leading to calls for a modified approach to addressing conflict that would engage states in efforts to carry out the liberal transformation of conflict-affected societies. The following chapter will chart the rise of the state-building agenda as a crucial element of contemporary peace-building efforts, and outline the new role for the state as a partner in the process of liberal social transformation.

⁸⁶ Duffield, p. 11

Chapter Two: STATE-BUILDING

Introduction

The many failures and limited successes of the first peace-building decade convinced the peace-building community of the need to develop new strategies for fostering liberal transformations in post-conflict societies. Commentators and official bodies alike sought to derive lessons from peace-building's mixed record, concluding that past operations had paid inadequate attention to strengthening state structures as a part of post-conflict peace efforts. From the late 1990s, an international consensus began to grow around the importance of effective statehood for overseeing the transition to peace. Frontline organizations such as the World Bank and the United Nations called for a concerted emphasis on building state capacity in developing countries, and influential commentators and public figures such as Francis Fukuyama and Lakhdar Brahimi identified state-building as the central objective of peace operations.¹ This constituted a momentous shift from the attitudes that had dominated the development sphere in the late 1970s and 1980s, which had given rise to development initiatives that largely bypassed the state.²

Despite the strong correlation between conflict and underdevelopment, attempts to foster peace by improving development outcomes had met with minimal success. Many countries experienced a resumption of conflict in the years following peace settlements, regardless of the considerable resources mobilized by the international community and channeled into post-conflict societies.³ Observers recognized that prolonged conflict in many cases precipitates a collapse of systems and institutions for governing society, resulting in an absence of national mechanisms to coordinate the reconstruction effort and, correspondingly, an unsustainable dependence on international actors. They reasoned that the low priority given to rebuilding national institutions was a primary reason for past failures, and concluded

¹ Brahimi, p. 4; Fukuyama (2004a); Fukuyama (2004b)

² Aside from military, diplomatic, and economic aid to client states in the context of the Cold War, during these decades international financial institutions utilized policies that attempted to reduce state influence in the economic sphere in developing countries. This will be discussed in greater detail in the following chapter.

³ Lund, p. 29-31

that the establishment of effective and self-sustaining government systems is essential for lasting peace and development.⁴

Whereas the prevailing development model of the previous decades had called for a minimalist state with limited influence in development matters, the ‘new’ agenda envisioned a pivotal *management* role for the state in securing national development. Reflecting this shift in development theory, the peace-building community called on the state to ‘partner’ with international institutions and organizations, markets, and civil society in the development process.⁵ States were tasked with cultivating an environment in which development initiatives could prosper, facilitating the transition to peace by eliminating underdevelopment and the roots of conflict. This task would require considerable administrative capacity, calling on the state to provide a level of reliable public services as a prerequisite for economic development. State institutions would be required to conform to certain principles of management and organization to carry out the role envisioned by the international community. A firm commitment to democracy and the rule of law would be essential for ensuring public accountability and the efficient use of resources.⁶ The realization of a specific form of statehood was envisaged as the goal of state-building operations – a revitalized state equipped to carry out the profound transformation of post-conflict society deemed necessary for building sustainable peace.

Mounting international concern surrounding weak statehood and the ramifications of state collapse contributed heavily to the revival of the state in post-conflict development. ‘Failed state’ discourse became highly influential in the 1990s, with states such as Somalia – and later Afghanistan – taken as exemplars of the dangers of state collapse for the international system. Incapable of maintaining security and exercising authority throughout their territory, these states are typified by human rights abuses, conflict, political repression, and insurgency, often generating humanitarian crises and large numbers of refugees. Such states, it was believed, provided a haven for terrorist networks and criminal activities, and were capable of destabilizing entire regions through the spread of conflict, political and financial

⁴ Brahimi

R. Rotberg. (2004) *When States Fail: Causes and Consequences*. Princeton, N.J: Princeton University Press, p. 33-34

⁵ World Bank (1997), p. III, 1, 25

⁶ Ibid.

instability, and refugees.⁷ Policymakers and academics alike warned of the need to take pre-emptive action to prevent state failure and avert its devastating internal, regional, and international ramifications. Fears of the magnified international impacts of state collapse associated with globalization appeared vindicated by the terrorist attacks of September 2001, which were taken to demonstrate the danger of terrorist networks operating with impunity in weak states.⁸

Advocates of state-building argue that the solution to dilemmas of underdevelopment, conflict, and state failure lies in a strengthening of state institutions, the reconstruction of legitimate authority in weak or post-conflict states, and the reformulation of systems of governance and political, social and economic organization. This chapter outlines the crucial contribution of failed state discourse to the state-building agenda, and provides a summary of key arguments in the literature for state-building as a peace-building strategy and a corrective for state weakness. It is argued that the international emphasis on building state capacity is geared towards the realization of a certain form of statehood. The characteristics and core functions of this state model will be explored, highlighting the extent of social and political reengineering envisioned as a part of twenty-first century peace-building operations.

State Failure

‘Failed states’ discourse gained credence throughout the 1990s and lent authority to state-building arguments that emerged towards the end of the decade, calling for international action to bolster state capacity in order to prevent violent conflict. The issue of state failure gained additional momentum within international security and development policy following the 9/11 attacks. The failed state has been identified as one of the paramount threats of the modern era, constituting an influential justification for interventions associated with the ‘war on terror’ as well as wider peace-building and development ventures.⁹ Despite the much-vaunted diminution of state sovereignty associated with globalization and the increasing power of international institutions, nation-states remain the ‘building blocks’ of the

⁷ Krasner (2004), p. 86

G. B. Helman and S. R. Ratner. (1992) Saving Failed States. *Foreign Policy* (89):3-20, p. 3, 8
Ghani and Lockhart

⁸ Paris, p. 2

⁹ C. Call. (2008b) The Fallacy of the 'Failed State'. *Third World Quarterly* 29(8):1491-507, p. 1492-3
J. Heathershaw. (2008) Unpacking the Liberal Peace: The Dividing and Merging of Peacebuilding Discourses. *Millennium - Journal of International Studies* 36(3):597-621, p. 611

international system.¹⁰ Neither have conceptual transformations of sovereignty that have attended the rise of the human security agenda detracted from the centrality of statehood within the current international system. State weakness or failure is seen as undermining the stability of that system; the dominant view in contemporary security circles attributes a higher likelihood of conflict to failed or failing states, which are no longer able to assert their authority within national borders.¹¹

The notion of ‘failed states’ was conceptualized in 1992, with Gerald Helman and Steven Ratner identifying the failed state as a nation-state which is “utterly incapable of sustaining itself as a member of the international community.”¹² The term applies to states that have suffered a disintegration of government structure or are otherwise incapable of asserting sovereign authority throughout their territory. Having lost the ability to carry out basic public functions, to maintain law and order, provide security and exercise a monopoly over the use of violence, functions ordinarily carried out by the state are taken up by competing groups in society – warlords, gangs, and other groups, often organized along ethnic lines.¹³ The OECD defines state failure – or ‘fragility’ – as a situation in which “state structures lack political will and/or capacity to provide the basic functions needed for poverty reduction, development and to safeguard the security and human rights of their populations.”¹⁴ Failed states are characterized by conflict, food scarcity, an absence of government services, and economic stagnation. The humanitarian cost of this phenomenon is severe, as witnessed in states such as Somalia, Democratic Republic of Congo, Sudan, and Afghanistan.¹⁵

Highlighting the threats to the international system posed by state failure – including human rights abuse, political instability, violent conflict, refugee flows, and the destabilizing impact of such conditions on regional affairs – Helman and Ratner

¹⁰ R. Rotberg. (2003) *State Failure and State Weakness in a Time of Terror*. Washington, D.C.: Brookings Institution Press, p. 1

¹¹ ———. (2002b) Failed States in a World of Terror. *Foreign Affairs* 81(4):127-40.

Rotberg (2003); Helman and Ratner; Krasner (2004)

¹² Helman and Ratner, p. 3

¹³ S. Sahin. (2007) Building the State and the Nation in Kosovo and East Timor after Conflict: A Thesis Submitted in Partial Fulfilment of the Requirements for the Degree of Doctor of Philosophy in Political Science in the University of Canterbury. *Department of Political Science*. Christchurch: University of Canterbury, p. 41

W. Zartman. (1995) *Collapsed States: The Disintegration and Restoration of Legitimate Authority*. Boulder: Lynne Rienner Publishers, p. 6, 8

¹⁴ Organisation for Economic Co-operation and Development. (2008) Concepts and Dilemmas of State Building in Fragile Situations: From Fragility to Resilience. Paris: OECD, p. 17

¹⁵ Sahin, p. 41-42

call for a “more systematic and intrusive approach” for preventing failure. “To prevent future conflict,” they argue, “the international community must *create a new political, economic and social environment* for states riven by war. That would include strengthening governmental institutions, protecting human rights, pursuing bilateral cooperation projects, and encouraging demilitarization”.¹⁶ Such measures would necessitate direct UN involvement in internal affairs, a requirement justified on the basis of Charter obligations to ‘maintain international peace and security’.¹⁷

The authors espouse a ‘conservatorship’ role for the UN in failed states, proposing three models of guardianship to address varying levels of state failure. For failing states which retain a minimal level of government structure, a conditional system of UN ‘governance assistance’ is envisaged, which would involve UN personnel working alongside government officials to carry out state administrative activities, with the host government retaining final decision-making authority.¹⁸ They argue for a more intrusive conservatorship arrangement for failed states, one in which the state delegates a degree of governmental authority to the UN. Citing the United Nations Transitional Authority in Cambodia as a contemporary example of this process – in which the UN took over administration of the entire country during 1992-93 until the completion of UN-organised elections and the drafting of a new constitution¹⁹ – they maintain that such an arrangement preserves the legal sovereignty of the host state, despite its reduced control over domestic affairs.²⁰ The final and most radical option would involve the revitalization of direct UN trusteeship – a measure which the authors concede remains outside the UN Charter at the time of writing, but is required in extreme cases, thus necessitating the amendment of the Charter.²¹ This suggestion came closer to reality with the establishment of UNTAET in East Timor in October 1999, by which the UN administered the country until its independence in May 2002.

The attacks of September 11 elevated state failure to centre-stage in international and US security policy, where the spectre of the failed state has provided

¹⁶ Helman and Ratner, p. 8, emphasis added

¹⁷ Ibid, p. 8

United Nations (1945)

¹⁸ Helman and Ratner, p. 12-14

¹⁹ United Nations. (2003) United Nations Transitional Authority in Cambodia.

<<http://www.un.org/en/peacekeeping/missions/past/untac.htm>> (Accessed 9 October 2012)

²⁰ Helman and Ratner, p. 14-15

²¹ The authors acknowledge that the process of amending the United Nations Charter would be fraught with difficulty, yet maintain its necessity. See Helman and Ratner, p. 16-17

a rationale for intrusive external action in order to avert the negative impacts of state disintegration on internal affairs and international stability.²² The imperative to prevent such occurrences has given rise to systems of ranking state performance based on specific criteria.²³ The Foreign Policy Failed States Index is a prominent example: first issued in 2005 in collaboration with the Fund for Peace, the Failed States Index is produced every year, ranking the world's states on the basis of a series of social, economic, political and military indicators.²⁴ The Peace and Conflict Instability Ledger, issued by the Center for International Development and Conflict Management at the University of Maryland, is a biannual ranking of countries according to their risks of 'future instability', based on the interaction between five political, economic, social and security factors and events deemed likely to enhance the risk of instability, such as revolutions, ethnic conflicts, regime changes, and genocides.²⁵ The Brookings Institution has developed its own Index of State Weakness in the Developing World, taking into account a similar combination of economic, political, security, and social welfare indicators.²⁶ Numerous other ranking systems for state weakness exist, all designed to quantify state weakness with a view to informing policymakers' efforts to strengthen 'fragile' states in the developing world.

The ranking of states according to specific criteria to determine their level of 'success' or 'failure' offers a powerful impetus for external intervention. Preventive action is accorded urgency in order to strengthen 'weak' states and thus avert the impacts of failure, both from a humanitarian perspective and in terms of international security and stability.²⁷ Advocates of intervention call for a pre-emptive approach, arguing that it is easier and far more cost-effective to strengthen states against failure than to attempt to revive states after collapse.²⁸ Traditional, state-centred security measures are thus conceived as a response to multi-leveled threats to human and state

²² Call, p. 1492-3

²³ Sahin, p. 49-50

²⁴ Foreign Policy. (2012) Failed States. <<http://www.foreignpolicy.com/failedstates2012>> (Accessed 23 November 2012)

Fund for Peace. (2012) Failed States Index: About the Failed States Index.

<<http://www.fundforpeace.org/global/?q=fsi-about>> (Accessed 23 November 2012)

²⁵ Hewitt et al. (2012) Peace and Conflict 2012: Executive Summary. Maryland: University of Maryland Center for International Development and Conflict Management. Online at <http://www.cidcm.umd.edu/pc/executive_summary/exec_sum_2012.pdf> (Accessed 23 November 2012), p. 5-7.

²⁶ S. E. Rice and S. Patrick. (2008) Index of State Weakness in the Developing World. Washington, D.C.: Brookings Institution.

²⁷ Sahin, p. 50

²⁸ Rotberg (2002a), p. 94-95

security. Despite the reconceptualization of sovereignty to incorporate a central emphasis on human security, strong statehood is seen as the key to security threats at both the state and the individual level.

State Capacity and Human Security

The notion that the international community has a ‘responsibility’ to act to protect civilians in cases where states lack the capacity or will to assure physical security has contributed further to the international commitment to state-building. Michael Ignatieff argues that the central human rights challenges of the new century emanate not from strong, oppressive states as in the Cold War, but from weak or collapsing states.²⁹ In the contemporary era, he claims, “the worst abuse now occurs not where there is too much state power, but too little.”³⁰ In the decade after the Cold War, issues of large-scale human rights abuse were predominantly associated with ineffective, failing states resorting to increasingly repressive means in the attempt to maintain control over their populations. Viewing the breakdown of state order as increasing the likelihood of violence both from armed groups rebelling against the government and from governments themselves, Ignatieff contends that “the chief prerequisite for the creation of a basic rights regime for ordinary people is the re-creation of a stable national state capable of giving orders and seeing them carried out throughout the territory ... Without the basic institutions of a state, no basic human rights protection is possible.”³¹ Thus state-building is perceived as essential for human security and the creation of human rights regimes.

Ignatieff argues for a rethinking of humanitarian intervention in light of the threat of failing states. Not only do the humanitarian crises generated in many instances of state collapse provide a moral imperative for action – they demand attention as a direct threat to national interest and state security. He draws a direct correlation between issues of human security and national security, arguing that the collapse of central authority in one state can destabilize entire regions, creating ‘bad neighbourhoods’ which in turn foster terrorism, produce drugs, and engender destabilizing refugee movements.³² This linking of conscience and strategic action has

²⁹ Ignatieff, p. 118

³⁰ Ibid. p. 119

³¹ Ibid. p. 119

³² Ibid. p. 119

provided a powerful impetus for state-building, drawing on shifting approaches to sovereignty that have arisen in response to the humanitarian intervention debate.

Whereas the United Nations Charter enshrines state sovereignty and non-intervention as inviolable principles of international law³³, the unprecedented civilian casualties and humanitarian crises generated by conflict in the 1990s sparked intense debate over the issues of humanitarian intervention, adding moral impetus to state-building arguments.³⁴ As discussed in the previous chapter, in 2001 the ICISS proposed a reformulation of the concept of sovereignty as the ‘responsibility to protect’, which called on the international community to protect civilians whose own governments are incapable or unwilling to do so.³⁵ This principle has achieved strong normative status amongst the international community³⁶, yet has not achieved the status of international law. Selver Sahin argues that this notion of international responsibility has lent itself to a perceived international duty to prevent the consequences of state failure. In the absence of domestic capacity to reverse state fragmentation, the international community has a ‘responsibility’ to prevent state collapse in order to avert the regional destabilization and humanitarian catastrophes associated with state failure.³⁷

David Chandler argues that redefining sovereignty in terms of state capacity rather than political independence introduces a continuum approach to sovereignty, whereby some states are considered more sovereign than others. Sovereignty is no longer understood as an inviolable right to self-government.³⁸ In the context of state failure, external interventions and engagement with weak states can be construed as supporting sovereignty, rather than violating it.³⁹ State failure discourse thus justifies highly intrusive modes of external intervention, appealing to the twin imperatives of human security and national security as a rationale for unprecedented incursions into the sovereign domain of nation-states.

³³ Excepting in self-defense or under the authority of UN Security Council actions based on Chapter VII provisions for safeguarding international peace and security. See United Nations (1945), Chapter VII: Actions with Respect to Threats to the Peace, Breaches of the Peace, and Acts of Aggression

³⁴ Holzgrefe; Ignatieff; Thakur, p. 244-246

³⁵ International Commission on Intervention and State Sovereignty

³⁶ Members of the 2005 UN World Summit endorsed the doctrine of Responsibility to Protect. It was recently invoked as justification for international action in Libya. See United Nations General Assembly. (2005) Resolution Adopted by the General Assembly. UN Document A/RES/60/1. Online at <<http://www.ifrc.org/docs/idrl/I520EN.pdf>> (Accessed 10 December 2014)

³⁷ Sahin, p. 89

³⁸ See Boutros-Ghali (1992), para. 17

³⁹ Chandler (2006), p. 33-36

When perceived as a multi-leveled threat at the individual, regional, and international levels, state failure precipitates an international response based on the convergence of human security, national interest, regional security, and international peace and security concerns. The reconceptualization of sovereignty to incorporate a greater individual emphasis has not detracted from the centrality of the state within the international security system. Rather, discourses of human security and state failure have been mutually reinforcing, with qualifications of sovereignty associated with the human security agenda serving to justify intrusive measures to bolster states against multi-leveled threats of state failure.⁴⁰ The rise of human security has not spelled an end to statism, but has instead merged with it to produce a discourse that promotes strong states as the solution to human security. This has lent urgency to the state-building cause, contributing to its current position at the forefront of peace-building initiatives.

The Emergence of State-building

By the late 1990s the failure of the peace-building project to fulfill its ambitious mandate had become clear. Peace-building operations failed to prevent further outbreaks of violence in a number of cases. Where further violence was averted, missions proved unequal to the task of establishing a ‘sustainable basis for peace’, and incipient governments appeared incapable of effectively administering their territories and carrying out the functions deemed necessary for promoting peaceful relations on their own.⁴¹ Brahimi attributes these shortcomings primarily to insufficient attention to rebuilding national institutions as a part of international peace efforts. He argues that peace and development cannot be maintained without effective, ‘self-sustaining government systems’; lasting peace is contingent upon functioning national institutions capable of providing long-term security for their populations.⁴² Further, such institutions are needed to oversee the ongoing process of development within their territory. Transforming states into viable structures for the

⁴⁰ Ignatieff
Chandler (2006)

⁴¹ I. Atack (2003) Peacebuilding as Conflict Management or Political Engineering? *Trócaire Development Review* 2003/4:17-32, p. 19

Heathershaw, p. 608; Lund, p. 29-31; Paris, p. 173-4

⁴² Brahimi, p. 2-3

maintenance of peaceful relations should, from this perspective, be the aim of post-conflict peace-building efforts.⁴³

Defining State-building

The term ‘state-building’ is generally used to denote efforts to strengthen or create legitimate government institutions capable of carrying out core state functions in an efficient manner. Initial approaches to state-building viewed it primarily as a technical matter of building institutions and developing state capacity. Charles Call and Elizabeth Cousens define state-building as “actions undertaken by international or national actors to establish, reform, or strengthen the institutions of the state”⁴⁴, while Fukuyama describes it as “the creation of new governmental institutions and the strengthening of existing ones”.⁴⁵ More recent conceptions of state-building have adopted a broader view, incorporating a greater emphasis on state-building’s political dimensions in the context of the relationship between the state and society. These ‘progressive’ approaches to state-building emphasize government legitimacy and resilience over capacity, and acknowledge state formation and state-building as a predominantly endogenous process, with external assistance to strengthen institutional capacity playing a secondary role.⁴⁶

The OECD defines state-building as “purposeful action to develop the capacity, institutions and legitimacy of the state in relation to an effective political process for negotiating the mutual demands between state and societal groups.”⁴⁷ This definition places particular emphasis on the state-society relationship, rejecting ideas of state-building that view the state purely in terms of formal institutions. It places state-building within a wider context of state formation, acknowledging the context-specific, historical process whereby states emerge in relation to societies. This relationship between state and society is not permanently fixed, yet may be afforded

⁴³ Ibid. p. 5

⁴⁴ C. Call and E. Cousens. (2008) Ending Wars and Building Peace: International Responses to War-Torn Societies. *International Studies Perspectives* 9:1-21, p. 4

⁴⁵ Fukuyama (2004a), p. 1

⁴⁶ United States Agency for International Development. (2011) Statebuilding in Situations of Fragility and Conflict: Relevance for US Policies and Programs. Washington, D.C.: USAID. Online at <http://csis.org/files/publication/110218_Statebuilding_in_Situations_Fragility_Conflict.pdf> (Accessed 10 November 2012), p. 3

⁴⁷ OECD (2008), p. 14

greater resilience by the extent to which relations are institutionalized and embedded in historical and cultural conditions.⁴⁸

State-building is not synonymous with peace-building; rather, it comprises a component of wider efforts to implement lasting peace in post-conflict societies. Strengthening or constructing effective institutions has achieved great prominence as a part of peace-building activities, but does not constitute a replacement for other peace-building initiatives. Nor should state-building be confused with nation-building, which refers to efforts to promote collective identity and national unity.⁴⁹ The terms ‘state-building’ and ‘nation-building’ are often used interchangeably;⁵⁰ however, while some degree of overlap between the two exists, they remain distinct concepts.⁵¹

State-building as Peace-building

While calls for the need to boost state capacity in weak states had become increasingly vociferous by the late 1990s, the dominance of state-building within peace-building discourse was solidified in 2004 with a series of publications which advanced similar arguments in their critiques of peace-building theory and practice. Francis Fukuyama, Simon Chesterman, Stephen Krasner, James Fearon and David Laitin, and Roland Paris all arrived at the related conclusion that peace-building missions had failed to recognize the importance of strong government institutions in securing lasting peace in post-conflict societies. International attempts to implant a liberal peace had foundered in the absence of basic institutions necessary for governing society, particularly in the areas of security, economy, administration, and the rule of law.⁵² Such arguments contributed to the adoption of a state-building agenda by subsequent UN peace-building missions.

Fukuyama proposes a framework for analyzing the different dimensions of ‘stateness’, one that distinguishes between the scope of state activities and state strength. State scope denotes the range of different functions taken on by governments

⁴⁸ Ibid. p. 13-14

⁴⁹ Paris and Sisk (2009), p. 14-15

⁵⁰ Sahin, p. 39

‘Nation-building’ and ‘state-building’ are often used interchangeably in American academic and policy circles. See, for example, J. Dobbins et al. (2007) *The Beginner’s Guide to Nation-Building* (a RAND Corporation publication), which conflates nation-building with institutional capacity building activities generally associated with state-building.

⁵¹ Organisation for Economic Co-operation and Development. (2010) *Peacebuilding and Statebuilding - Priorities and Challenges: A Synthesis of Findings from Seven Multi-Stakeholder Consultations*. Paris: OECD.

⁵² Paris and Sisk, p. 8-10

– the breadth of activities the state involves itself in, such as security and finance, health, and education. State strength refers to the capacity of states to plan and implement policy and enforce the rule of law – this dimension is often referred to as ‘state capacity’, or ‘institutional capacity’, and has traditionally been the primary concern of state-building.⁵³

During the 1980s and early 1990s, the dominant paradigm for developed and developing countries alike emphasized reducing the size of the state sector in order to increase efficiency. This was a critical period, a time of widespread democratic transition with the emergence of former communist countries and a number of countries in the developing world from authoritarian regimes. Highly dependent on financial assistance from international financial institutions (IFIs), these countries were advised – and often required as a condition attached to loan packages – to implement a range of liberalization policies designed to cut back the scope of state activity and reduce state intervention in economic affairs. Although advocating the importance of economic liberalization, Fukuyama argues that the scaling back of state sectors needs to be accompanied by state strengthening in other areas.⁵⁴ The resultant reduction of both state scope and state strength had had a counterproductive effect, as evidenced by declining development outcomes in sub-Saharan Africa, economic difficulties in post-communist countries, and a devastating economic crisis in Asia in 1997-98. Fukuyama attributes these developments to the unintended consequences of liberalization in the absence of sufficient institutional capacity. He calls for the strengthening of institutional capacity, arguing that institutions are crucial to development, and suggesting that state strength is more important than state scope in terms of economic performance.⁵⁵

Roland Paris makes a similar argument in his book *At War's End: Building Peace After Civil Conflict*, in which he claims that the processes of democratization and marketization are inherently destabilizing transformations, which in post-conflict environments may undermine fragile peace.⁵⁶ These two processes form the cornerstone of the liberal peace thesis, and have thus been central to the peace efforts carried out by the international community over the past two decades. The outcome of these international efforts has been disappointing:

⁵³ Fukuyama (2004b), p. 7

⁵⁴ Ibid. p. 5

⁵⁵ Ibid. p. 15-22

⁵⁶ Paris

[I]nternational efforts to transform war-shattered states have, in a number of cases, inadvertently exacerbated societal tensions or reproduced conditions that historically fueled violence in these countries. The very strategy that peacebuilders have employed to consolidate peace – political and economic liberalization – seems, paradoxically, to have increased the likelihood of renewed violence in several of these states.⁵⁷

While supporting the goal of transforming post-conflict states into liberal market democracies, Paris maintains that the peace-building missions of the 1990s placed too much faith in the ability of liberalization to create peace. He claims that the introduction of democratization and marketization have the potential to create high social competition at times when states are least capable of dealing with them.⁵⁸

States emerging from civil war are particularly vulnerable to the risks of increased social competition associated with liberalization. In such contexts of deep social conflict, the international community's attempts to promote peace by stimulating *further* political and economic competition can provoke renewed conflict. Paris argues that post-conflict states often lack systems to reduce the potential for social conflict, such as a culture of peaceful conflict resolution or a structure of 'cross-cutting cleavages' whereby different forms of identity overlap to form interconnected group memberships.⁵⁹ Most significantly, post-conflict states generally lack 'effective political institutions' capable of maintaining the rule of law, implementing policies, or responding to social demands. As a result, such states are unable to reconcile the conflicting demands of society – a function that is particularly crucial in times of dramatic change. Nor are they capable of providing a minimal

⁵⁷ Ibid. p. 6

⁵⁸ Ibid. p. 6-7

Amongst what Paris terms the 'pathologies' of liberalization are issues involving the harmful mobilization of civil society, the behavior of 'ethnic entrepreneurs', and the divisive nature of elections – all of which have the potential to lead to violence through the capture of democratic processes for destructive ends (intentional or not). Democratization may be further undermined due to the potential for elected leaders to intentionally sabotage the democratic transition in order to consolidate their power (p. 159-165). Paris also highlights the hazards of economic liberalization, arguing that marketization inflicts a significant social cost in the short term, tending to increase economic inequality due to retrenchment, currency devaluation, and rising unemployment. Citing evidence from previous peace-building operations, he contends that such economic disruption can engender violence and political instability, exacerbating tensions already present in society. Capitalism is an inherently competitive system, he contends, with its unequal distribution of rewards likely to fuel social unrest in vulnerable societies (p. 166-168). Similarly, democracy creates conditions of social contestation, in which groups are mobilized in support of competing candidates for power. In the past, peace-builders have failed to recognize these destabilizing effects, to the detriment of the countries in which they operate. See Paris, p. 159-168

⁵⁹ Paris, p. 168-171

level of institutional capacity required to oversee the process of liberal reform. Thus, post-conflict states are poorly equipped to manage the destabilizing effects of heightened social contestation associated with liberalization.⁶⁰

To mitigate these challenges, Paris proposes a strategy of ‘Institutionalization before Liberalization’, which would seek to minimize the destabilizing effects of liberalization by delaying the introduction of democratic and market reforms until basic institutions have been developed to deal with the strains of the liberalization process. After this initial institutionalization period, democratic and market transitions may be carried out in incremental steps.⁶¹ This task will require international peace-building operations to take on more intrusive forms:

Rebuilding effective governmental institutions, managing a phased and gradual transition to market democracy, and ensuring that the rule of law is sufficiently strong to defend the new state against inevitable challenges ... require a more interventionist and long-term approach to peacebuilding than what has been practiced to date. They require international peacebuilders to take on the role of *nation builders* – to serve as *surrogate governing authorities for as long as it takes to implement the liberalizing reforms that the peacebuilders themselves prescribe* for war-shattered states.⁶²

Such a gradual, controlled approach to liberalization is deemed more likely to foster peace and sustainable democratic systems in the long term.⁶³ This approach is known as ‘sequencing’, and is often referred to by organizations such as the United Nations as critical to the success of post-conflict reforms. The ‘prioritizing’ of policy reforms is promoted in order to avoid social destabilization, and to solidify

⁶⁰ Ibid. p. 173-175

⁶¹ Ibid. p. 7-8

Anticipating objections from liberal peace proponents, Paris points out that the devaluation of the state in recent decades does not reflect the true role of the state in classical liberal thought. Early liberal peace theorists emphasized the importance of strong and effective governance capable of restraining social competition and ensuring domestic peace. However, contemporary formulations of liberal peace render questions of the state ‘unproblematic’, failing to address the question of “how market democracies are to be constituted from scratch” (Paris, p. 178). Paris argues that the weaknesses of the peace-building project are a result of flaws in the theory of liberal peace itself, which – in its modern manifestation – has overlooked the crucial role of the state. The realities, he claims, are in stark opposition to this contemporary trend: effective state authority is an essential precondition to peace, therefore functioning institutions must be in place before society is subjected to the rigours of liberalization (p. 176-178). This model of statehood has proved more difficult to implement than initially anticipated – which is perhaps unsurprising, given that liberal democratic states took centuries to develop in the West and are virtually being transplanted into societies with little historical or cultural experience with liberal democracy. See Paris, p. 176-78

⁶² Paris, p. 206, emphasis added

⁶³ Ibid. p. 209, 211

institutional foundations before the introduction of more extensive reforms.⁶⁴

Simon Chesterman explores issues in state-building and transitional administration by considering whether it is possible “to establish the conditions for legitimate and sustainable national governance through a period of benevolent foreign autocracy.”⁶⁵ He argues that a fundamental tension exists between the means and the ends of transitional administration: the international community exercises a certain hypocrisy in its act of imposing ‘benevolent autocracy’ in preparing populations for democratic governance.⁶⁶ Modern day transitional administrations bear a number of similarities to post-World War military occupations and the international mandate and trusteeship systems of the League of the Nations and United Nations, yet the international community seeks to distance itself from sensitive parallels to colonialism and occupation.⁶⁷ Nonetheless, these parallels exist, and are shrouded by language of local ‘ownership’, which is used to obscure the nature of international power in such administrative arrangements.⁶⁸

Chesterman argues that such ownership claims are inaccurate and even counter-productive, reflecting the ends of transitional administration but not the means. ‘Autocratic powers’, he contends, must temporarily rest with international actors due to the absence of local capacity; such ‘trustee-like’ relationships are required in order to achieve the goal of establishing viable democratic systems. Despite the tension between liberal democratic ends and benevolent autocratic means, he predicts that circumstances of state failure will continue to demand intervention. The political and institutional climate surrounding such interventions is likely to ensure that transitional administration remains an exceptional activity to be entered into on an ad hoc basis.⁶⁹

To avoid counterproductive disputes over power and ownership, Chesterman contends that greater clarity is needed regarding the nature of the relationship between international and local actors. Power should be held by international authorities acting in consultation with local actors, and geared towards the gradual

⁶⁴ United Nations Department of Economic and Social Affairs Division for Sustainable Development, p. 4

⁶⁵ Chesterman, p. 1

⁶⁶ Ibid. p. 127

⁶⁷ Ibid. p. 46-47

⁶⁸ Krasner (2004), p. 108; Schellhaas and Seegers

⁶⁹ Ibid. p. 256-57

transferral of power to local authorities.⁷⁰ Lessons must be drawn from past experiences of transitional administration, with the independent future of trust ‘territories’ ever in mind. Despite what Chesterman deems a legitimate assumption of autocratic authority by international powers, he maintains that modern trusteeships must earn the trust of local actors, requiring accountability and transparency and a high degree of understanding and cultural sensitivity. Where the UN and the international community are required to take on the functions of states, “they must not lose sight of their limited mandate to hold that sovereign power in trust for the population that will ultimately claim it.”⁷¹

James Fearon and David Laitin take Chesterman’s argument a step further, calling for ‘neotrusteeship’ arrangements for weak states by ongoing international administrations to restore stability and build state capacity. The authors suggest that international interventions that seek solely to mediate political differences, alleviate social and political grievances, and facilitate peace processes are misconceived and doomed to fail in cases where state capacity is low.⁷² Where state structures are incapable of ensuring domestic security, they argue, exit without state-building is likely to precipitate a return to conflict.⁷³

Controversially, Fearon and Laitin contend that in some cases the complete withdrawal of international intervention may never be possible. States that consistently fail to provide security for their civilian populations will be subject to continued international surveillance. In such situations, they recommend the transferral of authority “not to full sovereignty[,] but rather as a state embedded in and monitored by international institutions.”⁷⁴ Fearon and Laitin cite Kosovo and Bosnia as two cases in which a long-term, internationally embedded form of statehood may be necessary. The proposed strategy for this is to subsume national governance within broader governance structures, rendering national governance less relevant than local and international governance structures.⁷⁵

⁷⁰ Ibid. p. 143-44, 239-42

⁷¹ Chesterman, p. 257

⁷² Fearon and Laitin, p. 22-23

⁷³ Ibid. p. 21

⁷⁴ Ibid. p. 42

⁷⁵ Ibid. p. 41

The role of the European Union in the governance of Kosovo and Bosnia is illustrative of such a policy, with national government authority eclipsed at the supranational level by an organization empowered to override central government decisions. In reality, however, there is a tremendous disconnect between local and international governance institutions, with locally elected bodies

Stephen Krasner likewise prescribes a form of trusteeship for the international community, arguing that new policy tools are required for external actors to deal with the threats emanating from failing or collapsed states. The current repertoire (at the time of writing) for addressing bad governance in weak states is woefully inadequate, he argues, with governance assistance to such states and short-term transitional administrations achieving mixed results. Krasner proposes two further options for international engagement with these states: *de facto* trusteeships and shared sovereignty contracts.⁷⁶ *De facto* trusteeships in some form by major states or regional or international organizations are seen as a potential means of assuring stability in failing or collapsed states. He proposes that international actors exercise authority over local functions for an indefinite time period, with no immediate or medium-term plans for withdrawal. International authorities may terminate the international legal sovereignty of the territory they administer – in entirety or in specific areas – if required.⁷⁷

Shared sovereignty arrangements would entail the involvement of external actors in selected domestic authority structures for an indefinite time. Such engagements would be legitimized by voluntary contracts between national authorities and international actors, thus involving a voluntary relinquishing of autonomy by the state in question.⁷⁸ Similar arrangements have been observed in states such as Afghanistan, Bosnia, Timor-Leste, Iraq, and Kosovo, where local administration is highly dependent on external actors who implement a number of functions usually reserved for domestic governments. Under shared sovereignty contracts, however, such arrangements would become permanent rather than transitional.⁷⁹ Krasner's arguments confer an extraordinary degree of authority to external actors, going so far as to recommend that international powers be authorized to terminate state sovereignty where it is deemed necessary.⁸⁰ To obscure the extent of the power imbalance such an arrangement would entail between local authorities and intervening actors, Krasner recommends referring to shared sovereignty arrangements as 'partnerships', which would allow political leaders to claim

effectively disenfranchised at the national level by the EU special representative's veto power. See Fearon and Laitin p. 41; Chandler (2006)

⁷⁶ Krasner (2004), p. 105

⁷⁷ Ibid. p. 105-107, 119

⁷⁸ Ibid. p. 108, 119

⁷⁹ Ibid. p. 108

⁸⁰ Ibid. p. 119

sovereignty despite violating many of its core principles. This would enable policymakers to “engage in organized hypocrisy, that is, saying one thing and doing another. ... It would allow actors to obfuscate the fact that their behaviour would be inconsistent with their principles.”⁸¹ Like Chesterman, Krasner recognises the inconsistency between the exercise of international autocratic authority and claims of legal sovereignty. However, Krasner demonstrates little discomfort with such arrangements, recommending instead the deliberate concealment of such inconsistencies between principles and practice.

The arguments of Fearon and Laitin and Krasner occupy the more extreme margins of state-building theory, yet nonetheless have contributed to the theoretical discourse that guides state-building practice in the twenty-first century. Central to this discourse is the claim that strong state capacity, together with development, is essential for lasting peace in post-conflict societies. The coalescing of human and strategic security imperatives in the 1990s led the way for the emergence of state-building as the perceived remedy for state failure in the eyes of the international community. Such is the prominence of state-building arguments within the peace-building community that it is now held by some to be the ‘central objective of any peace operation’.⁸² As Brahimi contends, sustainable peace is more than the mere absence of conflict – effective governance is required to oversee the process of development and uphold peaceful relations in post-conflict societies. Peace-building activities would therefore be required to extend beyond civil society efforts and focus on bolstering state capacity.⁸³ Only then would states be capable of moving beyond dependence on the international community and governing competently and peacefully.

Building State Capacity: Core Functions of the Contemporary State

But what institutional forms are envisaged for such states? Robert Rotberg contends that the role of the nation-state is to deliver political goods to its citizenry, of which the most essential is security. States are therefore required to prevent incursions into their own territory, to address domestic or external threats to nation and society, to prevent crime, and to provide means of managing disputes in a non-

⁸¹ Ibid. p. 108

⁸² Brahimi, p. 4

⁸³ Ibid. p. 3

violent manner. The provision of other political goods is contingent upon sustaining a certain level of security, which is to be achieved through the rule of law, property rights regimes, and a judicial system.⁸⁴ Further political goods include democratic rights, tolerance of dissent, and civil and human rights, together with healthcare and education systems, physical infrastructure, communications, and a financial and banking system. States' ability to provide these political goods forms the basis by which they are deemed strong, weak, or failed.⁸⁵

The building of institutions capable of providing these political goods is the express aim of state-building efforts. The World Bank contends that effective states share certain common features, regardless of variations in context or setting.⁸⁶ Ashraf Ghani and Clare Lockhart outline ten crucial functions for contemporary states:

- rule of law
- monopoly on the legitimate use of violence
- administrative control over various functions within the state's territory
- sound management of public finances
- investment in human capital
- creation of citizenship rights through social policy
- provision of infrastructure services
- formation of a market
- management of public assets
- effective public borrowing⁸⁷

Success in performing these ten functions is believed to create a 'virtuous circle', bolstering the rights and opportunities of the citizenry and generating greater legitimacy and trust for the state. Ghani and Lockhart describe this as a 'sovereignty dividend'. However, failure to discharge all of these functions effectively is held to fuel a negative cycle, which in extreme cases leads to violence and a 'sovereignty gap'. The extent of this sovereignty gap is taken as an indicator of state weakness.⁸⁸

One of the first tasks of any peace-building mission – and a necessary prerequisite for state-building efforts – is to restore state security capabilities. This capacity has long been perceived as central to statehood, based on an arrangement

⁸⁴ Rotberg (2003); Rotberg (2002b), p. 128, 130-131

⁸⁵ Rotberg (2002b), p. 130

⁸⁶ World Bank (1997), p. III

⁸⁷ Ghani and Lockhart, p. 124-163

⁸⁸ Ibid. p. 163-164

between state and citizens whereby the state is granted monopoly over the use of violence, and in exchange provides for the physical security and wider rights of the citizenry.⁸⁹ In post-conflict environments, achieving this goal is contingent on the successful disarmament, demobilization, and reintegration (DDR) of former combatants into society.⁹⁰

Upholding the rule of law is one of the primary tasks of viable democratic states. These rules form the basis of the governance arrangements of a given society: they delineate the functions of the state and the rights and duties of citizens, and establish a framework for relations between the public and private spheres.⁹¹ Ghani and Lockhart describe the rule of law as the “‘glue’ that binds all aspects of the state, the economy, and society”⁹² – it provides accountability mechanisms to constrain the actions of government, regulates society and establishes processes for resolving social tensions, and forms the institutional framework for a market economy. Establishing the rule of law in post-conflict states is a central preoccupation of state-building operations. The contemporary emphasis on ‘institution-building’ and ‘capacity-building’ is entirely predicated on the supremacy of this system. The writing of a constitution is thus accorded great significance in post-conflict situations. The constitution sets out the rules and principles by which a state is governed; it is the cornerstone of the rule of law in society, and perceived as central in the transformation from violence to a peaceful society governed by institutions.⁹³

A strong state must be capable of exercising administrative control over its territory, carrying out the state functions embodied in the constitution effectively throughout its territory. Administrative structure may vary depending on cultural and historical context, with some states favouring a highly centralized administrative arrangement and others opting for a more federal system.⁹⁴ What is essential is that

⁸⁹ Ghani and Lockhart, p. 128-31

⁹⁰ K. Ammitzbøll and H. Blair. (2011) First Steps in Post-Conflict State-Building: Establishing Critical Functions and Setting Priorities. In *International Crisis Management: Squaring the Circle*, edited by Ernst M. Felberbauer Walter E. Feichtinger, and Erwin A. Schmidl, pp. 99-124. Vienna and Geneva: National Defence Academy; Austrian Ministry of Defence and Sports; Geneva Centre for Security Policy, p. 103

Brahimi, p. 12

⁹¹ Ghani and Lockhart, p. 125

⁹² Ibid. p. 125

⁹³ K. Samuels. (2009) Postwar Constitution Building: Opportunities and Challenges. In *Dilemmas of Statebuilding: Confronting the Contradictions of Postwar Peace Operations*, edited by Timothy D. Sisk and Roland Paris, pp. 173-95. New York: Routledge, p. 173

⁹⁴ Ghani et al. p. 7

the state has the capacity to exert its authority throughout the state; the failure to do so has proved to be one of the common determinants of state collapse.⁹⁵

A state's human resources are crucial to peaceful development, and states are therefore encouraged to invest in human capital, and to provide equal opportunities for their populations through social policy and the rights set down in the constitution. The importance of education and health care provision in post-conflict environments is widely acknowledged. The emergence of a middle class in developing, post-conflict countries is dependent on the provision of quality education. This professional cadre is considered essential to economic productivity and wealth creation, and provides the human resources necessary to carry out the administrative functions of a viable state. Investment in public health is also essential – in particular preventative health care. Ghani and Lockhart argue that the failure of states to provide quality healthcare and education condemns societies to high levels of inequality, social immobility, and persistent poverty. In the absence of these social services, the growth of the middle class (considered crucial for economic growth) is stalled, resulting in economic stagnation and poor development outcomes. It is argued that only a healthy, well-educated population can provide the social capital needed for the formation of civil society networks that hold both state and market accountable.⁹⁶

Social policies that protect citizenship rights create equality of opportunity and foster collective identity and national unity, prevailing over divisive forms of identity. Such policies unite the members of nation-states into communities bound by mutual rights and obligations. Of central importance in democratic societies is the right to vote, granting all citizens an equal 'stake' in the nation's governance. Beyond the civil rights generally associated with liberal democracies, successful states have also established mechanisms of labour regulation to protect the rights of the workforce, and welfare provisions to protect the vulnerable and prevent entrenched inequality from undermining the state's development efforts. Geographically and ethnically diverse states may put in place policies that provide additional support to disadvantaged regions and seek to remove barriers to opportunity. The failure to implement inclusive social policies can exacerbate social cleavages, heightening the

⁹⁵ Rotberg (2002a), p. 86

⁹⁶ Ghani and Lockhart, p. 139-42

risk of conflict and fuelling harmful social divisions which undermine the integrity of the state.⁹⁷

One of the primary goals of state-building operations is to establish functioning market economies in post-conflict states. Although the market is expected to constitute an independent private sphere separate from the state – and is commonly described as ‘self-regulating’⁹⁸ – intellectual developments over the past decade (particularly in state-building circles) have accorded a more significant role for the state in regulating the market economy. The establishment of an enabling environment for market relations comprises one of the central functions of the state in current peace-building circles. Not only is the state required to provide a market-friendly legal framework of property rights, laws of contract, and corporate, insurance, banking, and employment laws, it is accorded a major role in fostering the development of private enterprise, and expected to intervene in cases of market failure.⁹⁹ The market is expected to play a leading role in development in post-conflict countries. However, unlike in earlier decades when the state was virtually excluded from development, the rise of the state-building agenda has seen a revitalization of the role of the state in economic development. That the state has a vital role to play in establishing and perpetuating the market is now more openly acknowledged¹⁰⁰ – particularly in the aftermath of the 2008 global financial crisis, which necessitated decisive intervention by national governments to address market failures.¹⁰¹

The state-building agenda places a great deal of emphasis on states’ management of public finances – a concern which constitutes a primary focus of ‘good governance’ initiatives by donors and financial institutions. The state budget is the central instrument of public financial management; it relies on sound procurement

⁹⁷ Ibid. p. 144-46

⁹⁸ For an insightful critique of the discourse of the ‘self-regulating market’, see K. Polanyi. (2001) *The Great Transformation: The Political and Economic Origins of Our Time*. Boston: Beacon Press. Polanyi argues that the market system has been constructed and maintained through intrusive state intervention since its inception.

⁹⁹ Ghani et al. p. 8

Ghani and Lockhart, p. 149-50

¹⁰⁰ The World Bank’s 1997 World Development Report, ‘The State in a Changing World’, represents perhaps the clearest articulation of this shift in policy towards the state. This report will be discussed in greater detail in the next chapter.

¹⁰¹ I. Glinavos. (2014) *Redefining the Market-State Relationship: Responses to the Financial Crisis and the Future of Regulation*. Abingdon, Oxon: Routledge, p. 112-14, 157-59

H. Willke, G. Willke. (2012) *Political Governance of Capitalism: A Reassessment Beyond the Global Crisis*. Northampton, MA: Edward Elgar, p. 1-2.

policies, accounting, and auditing to ensure public expenditure is carried out efficiently and accountably. Governments must develop means of efficient revenue collection in order to reduce their dependence on external funding. Financial dependence is often high in the early post-conflict years, but ‘sovereign’ governments must develop the resources to fund public spending internally.¹⁰²

Ghani and Lockhart propose a three-phased system of public expenditure to ensure accountability in weak or post-conflict states, beginning with a high level of state control to achieve an acceptable degree of accountability. Once transparency in financial management is achieved governments are able to pursue greater efficiency of outcomes. Finally, after the administration has demonstrated a necessary measure of financial responsibility, a lowering of official controls is advised “to allow far greater imagination in the use of public resources”.¹⁰³

One of the fundamental barriers impeding service provision and public initiatives in post-conflict countries is a lack of physical infrastructure. A certain level of infrastructure is required for the market to function and the state to fulfill its security and administrative obligations. The provision of transportation, power, water, and communications are essential for economic productivity, bureaucratic functions, and investment in human capital.¹⁰⁴ Without adequate infrastructural services, crucial sectors such as agriculture, education, and in particular health are heavily affected. Reliable infrastructure prevents the formation of isolated areas excluded from the market and state administration; it also facilitates participation by developing countries in the global economy.¹⁰⁵

Another critical role for the state is the management of public assets, including natural assets such as land, water, and mineral deposits, and other assets such as physical infrastructure and licensing regimes. These assets can provide a sustained source of revenue if managed properly. The management of environmental resources and regulation of extractive industries is particularly critical for sustainable development in developing countries. Long-term government planning, enforceable property and user rights, and regulation are essential to safeguard a country’s environmental assets for future generations and prevent the potential destructive

¹⁰² Ghani et al. p. 7

¹⁰³ Ghani and Lockhart, p. 136

¹⁰⁴ Ghani et al. p. 8

¹⁰⁵ Ghani and Lockhart, p. 148-49

impacts of irresponsible resource use.¹⁰⁶ The way in which assets are mobilized is held to be an indicator of state effectiveness. State-building operations have sought to ensure that this process remains transparent, to avoid the corruption and exploitation which has plagued many developing countries with rich natural resource endowments.¹⁰⁷

The final area deemed essential to effective statehood is the realm of public borrowing, a necessary recourse for investment in physical, institutional, and human capital. Access to public borrowing is necessary for a functioning financial sector, and is central to the banking system. The state has traditionally played a pivotal role in the creation of institutions for public lending. At the international level, states must demonstrate financial responsibility to gain access to loans on the international market. If invested wisely, these funds are expected to generate a surplus that exceeds repayments on the loan itself.¹⁰⁸

Approaches to state-building are subject to some degree of variation across different institutions, commentators, and state-building missions themselves, with some actors emphasizing certain elements of these ‘core’ state functions over others, and efforts to tailor state-building operations to perceived local needs and realities. Despite such inevitable variations, however, a general consensus in official institutional approaches to state-building exists, giving rise to discourses and policies that conform to a large extent to the vision of statehood outlined above.

Fundamentally, this vision represents a repackaging of the assumptions of liberal peace theory within a state-building agenda. The key elements of the liberal peace – democratization, liberalization, and market-led development – are embedded within this revised framework of holistic, social and institutional transformation for underdeveloped or post-conflict states. The implementation of these core state functions is intended to establish an institutional environment within which liberal peace prescriptions can flourish. The ‘sequencing’ of reforms and the establishment of certain institutional structures is seen as essential for the successful rolling-out of liberal reforms. As Duffield contends, the liberalization process associated with

¹⁰⁶ Ghani and Lockhart, p. 156-157

¹⁰⁷ Scholars refer to this trend as the ‘resource curse’. These arguments will be discussed further in Chapter Five.

¹⁰⁸ Ghani and Lockhart, p. 160
Ghani et al. p. 8

liberal peace-building practice represents a large-scale social transformation.¹⁰⁹ Previous peace-building experiments have demonstrated that the wholesale transplantation of liberal reforms constitutes a deeply destabilizing experience for post-conflict states.¹¹⁰ The aim of state-building is to create a favourable institutional environment for the implementation of liberalizing reforms, and recruit the state as a partner and facilitator in this process.¹¹¹

State-building as Social Engineering

Despite the consensus within key international organizations concerning the state-building imperative and a guiding paradigm for building state institutions in ‘weak’ or post-conflict states, numerous critiques have emerged which question both the practice and the fundamental assumptions of the state-building project. A proliferation of ‘best-practice’ critiques have materialized that seek to weigh and address shortcomings within state-building theory and practice, without calling into question the fundamental assumptions of the wider state-building project itself. Such commentaries are plentiful and reform-minded, concerned primarily with a range of practical aspects of the state-building project from the experiences of local initiatives to the international state-building apparatus itself. The majority of theoretical state-building research is similarly geared towards reviewing and resolving issues in state-building theory in order to engender greater success in implementation.¹¹² However, there are more fundamental critiques that seek to expose these assumptions and call into question the legitimacy and guiding principles of state-building discourse itself, and some of these will be explored here. Critical observers question the power relations and ideological assumptions that inform state-building practice, recognizing

¹⁰⁹ Duffield, p. 11

¹¹⁰ Paris, p. 7-8

¹¹¹ Ibid, p. 206

World Bank (1997)

¹¹² Alex Bellamy and Paul Williams highlight the difference between a problem-solving agenda for future peace operations and a ‘critical agenda’, which calls into question the guiding ideologies of dominant approaches to peace operations and the structures of power they reinforce. The authors maintain the need for such critical approaches to articulate a vision for future peace operations, unlike many other critical analyses of peace-building and state-building, which focus on the limitations within current practice without outlining any clear vision for the future of peace operations.

See A. Bellamy and P. Williams. (2004) Conclusion: What Future for Peace Operations? Brahimi and Beyond. *International Peacekeeping* 11(1):183-212.

For some examples of reformist literature, see J. Beauvais. (2001) Benevolent Despotism: A Critique of U.N. State-Building in East Timor. *New York University Journal of International Law and Politics* 33(4):1101-78; C. Call. (2008a) Building States to Build Peace? A Critical Analysis. *Journal of Peacebuilding and Development* 4(2):60-74; Brahimi (2007); and Paris.

state-building as a contemporary manifestation of extant structures of global power and dominance.¹¹³

A common critique of state-building is that it reflects an extremely narrow conception of what constitutes a state. M. Anne Brown et al. argue that state-building constitutes a Western-dominated discourse based on an idealized model of Western states. As a result, the form of statehood envisaged by advocates of state-building is often far removed from local systems of governance and legitimacy.¹¹⁴ While much is made of ‘local ownership’ and adapting state-building activity to different contexts, little genuine attempt is made to understand existing political community structures and to base peace-building efforts on these realities. The state-building agenda seeks to establish a pre-determined form of statehood, with institutions mirroring the liberal democratic, free market states of Western countries.¹¹⁵

It is true that more recent formulations of state-building draw attention to the context-bound nature of state formation and the need for an approach that is based on interactions between state and society.¹¹⁶ The OECD, for example, takes a contractarian approach, arguing that:

[T]he process of establishing and maintaining a mutually agreed social contract – of reaching a state of dynamic equilibrium between the expectations of society and state capacity to meet these expectations – is intrinsic to the process of state formation. It is also a core ingredient of legitimacy.¹¹⁷

However, the OECD and other influential agents of state-building remain constrained by specific notions of state and social organization, in that they continue to view liberal, market based systems of governance as desirable and adaptable to vastly divergent contexts. The roles recommended for the state in relation to the economic and social spheres are shaped by liberal assumptions rooted in Western history and experience.¹¹⁸ Perceptions of core state functions – which may not be as exhaustive as outlined above but at a minimum include security provision, constitutional rule of law, basic public services, and mechanisms of revenue collection and budget

¹¹³ Of these critical approaches to state-building, the arguments of scholars such as Duffield, Chandler, and Hughes will receive foremost attention throughout this thesis.

¹¹⁴ Brown et al. (2010), p. 100

¹¹⁵ Ibid. 106

¹¹⁶ See USAID (2011); OECD (2008)

¹¹⁷ OECD (2008), p. 17

¹¹⁸ Bendaña, p. 8

implementation¹¹⁹ – reflect this system of organization, and donor activity remains strongly linked to the implementation of principles and practices strongly associated with the Western experience.¹²⁰ In most countries the state-building process – like the wider peace-building agenda – constitutes a radical transformation of post-conflict society, one in which structures of political, social, and economic organization are fundamentally reengineered to reflect a state model deemed essential to sustainable peace and development.¹²¹

Rod Nixon has coined the term ‘New Subsistence State’ in his analysis of state-building experiences in Timor-Leste as a means of conceptualizing the dramatic structural changes expected of post-conflict states. New Subsistence States are states with subsistence economies and little historical experience involving the generation and management of large, centrally controlled surpluses. They are typified by a subsequent lack of workforce stratification and labour specialization, and adherence to traditional authority structures rather than ‘legal’ or ‘bureaucratic’ systems of authority. In general, statehood in New Subsistence States has been adopted or imposed as a model, rather than arising naturally as a result of historical development.¹²²

Agents of international state-building promote liberal state structures as the appropriate model of social and political organization for these societies, regardless of historical differences. The social contract promoted by such agencies, Nixon argues, is based on Western judicial processes and legal institutions – institutional systems that are completely foreign to many ‘developing’ societies, and particularly subsistence societies, many of which already possess contracts rooted in custom and culture.¹²³ International state-building organizations encourage subject states to conform to the Western state model – which has been canonized through the development of the UN system – “in the hope that even stateless societies will eventually internalize the state model of social organization even though they may have experienced no internally generated need for it.”¹²⁴

¹¹⁹ Paris and Sisk, p. 15. While the authors claim that “none of these functions requires Western-style democracy or ‘neoliberal’ market ideologies (p. 15), Paris himself is a prominent advocate for the institutionalization of systems geared towards liberal democracy in post-conflict societies. See Paris.

¹²⁰ R. Nixon. (2012) *Justice and Governance in East Timor: Indigenous Approaches and the ‘New Subsistence State’*. Routledge Contemporary Southeast Asia Series. Abingdon: Routledge, p. 9

¹²¹ Duffield

¹²² Nixon, p. 5, 202

¹²³ Ibid. p. 9

¹²⁴ Ibid. p. 9

Referring to peace-building more generally, Shahrbanou Tadjbakhsh argues that a dilemma exists between concepts of liberal peace, which conforms to ‘universal’, international principles, and a communitarian peace rooted in local values, cultures and traditions (which may be non-liberal in nature). As a result, the post-conflict state is caught between two standards of legitimacy, internal and external, which may bear varying degrees of similarity or difference dependent upon cultural and historical context. External legitimacy requires a state to adhere to international liberal norms; however, internal legitimacy springs from the state’s fulfillment of the needs and expectations of its people, as acknowledged in the OECD’s definition of state-building. As will be discussed below, this dilemma has been particularly pronounced in Timor-Leste, where the nascent state has struggled to balance the often-competing demands of the international community and the local population, resulting in alienation from its citizenry and public disillusionment with the Timorese experiences of nationhood, democracy, and development.¹²⁵

Paris and Sisk identify this dilemma as an inherent contradiction within the idea of state-building. The use of external intervention as a tool to foster sustainable self-government is fundamentally intrusive, a fact that undermines the legitimacy of state-building operations and the states they seek to assist.¹²⁶ As Chesterman acknowledges, a fundamental tension exists between the means and aims of state-building. Claims of ‘local ownership’ are inaccurate – a degree of international control is always employed in pursuit of this aim, and international agents espouse universal values as a solution for local problems.¹²⁷ Often local or customary systems of organization are deemed problematic and held responsible for conflict, justifying (in the eyes of peace-builders) the introduction of new systems and institutions ‘proven’ to promote peace and development.¹²⁸

‘Sequencing’ approaches to state-building – such as Paris’ concept of ‘Institutionalization before Liberalization’ – have likewise been criticized for separating decision-making from domestic political accountability. Chandler contends that sequencing strategies invert traditional understandings of the rule of law based on popular consent and a social contract, removing accountability from

¹²⁵ Hughes, p. 155, 232-33

¹²⁶ Paris and Sisk, p. 305

¹²⁷ Chesterman, p. 127; Paris and Sisk, p. 305

¹²⁸ Duffield, p. 122-3

policymaking by placing fundamental decisions outside of the political process.¹²⁹ Paris' proposal empowers international 'nation builders' to create structures of governance with minimal local consultation, resulting in state structures which lack local legitimacy – despite the expressed aim of state-building to create 'legitimate' state institutions rooted in the expectations of society.¹³⁰

Arguments for 'neotrusteeship', embedded statehood and 'shared sovereignty' would extend this pattern of external, unaccountable decision-making, advocating for unprecedented levels of intrusion into domestic affairs, regardless of the absence of an authorizing framework in international law. Fearon and Laitin's endorsement of ongoing international administration of weak states constitutes a direct violation of the principle of sovereignty and a renewal of long-abandoned practices of international trusteeship. Krasner unselfconsciously suggests a return to trusteeship and brazenly endorses the use of obfuscating language to mislead populations regarding the limited amount of local control over domestic affairs.¹³¹ He entrusts an extraordinary degree of power to international actors, recommending that international agents be granted authority to terminate states' sovereignty in the long-term if such a measure is deemed necessary.¹³²

In contrast, Brahimi acknowledges the ultimate authority of local leaders, arguing that partnerships must be established between international and national actors that recognize the leadership role of nationals:

The foreigners need to fully understand and accept that, vital as their own contributions may be, this is not their country, their stay is temporary, and however important and even indispensable their contribution ... might be, they do not have the right to impose their views over the national will and the legitimate aspirations of the indigenous people.¹³³

However, whilst the main body of state-building discourse makes similar claims regarding local ownership, practical experiences of state-building to date have demonstrated a policy of subordinating domestic concerns to external preferences.¹³⁴

¹²⁹ Chandler (2006), p. 56

¹³⁰ OECD (2008)

¹³¹ Krasner (2004), p. 108

¹³² Ibid. p. 119

¹³³ Brahimi, p. 3

¹³⁴ Chapter Six explores a recent example of this external prioritization in Timor-Leste, where the demands of international actors have prevailed over government proposals in disputes over management of the country's oil reserves.

The dominance of international actors associated with the state-building project has raised fears of neo-imperialism from critics of state-building discourse. Commentators such as David Chandler and Mark Duffield view the state-building agenda as a means of international regulation which seeks to implement radical social transformation in subject states, using the state as a mediator between international authority and domestic politics.¹³⁵ The security imperatives of the state-building agenda – together with the evolution of humanitarian norms and international duties of civilian protection – have been used to justify coercive international measures to ‘fix’ the problems of failed states and establish states responsive to the human security of their populations. The emphasis placed on the nature of statehood in the state-building literature brings external influence into the realm of domestic administration, politics, and management, affording international institutions a more direct role in determining the internal governance mechanisms of post-conflict states. As the following chapter will show, previous mechanisms of external conditionality such as structural adjustment programmes are no longer required. State-building facilitates the formation of states embedded in international institutional frameworks.¹³⁶ Political accountability and responsibility for decision-making is blurred, politics is subordinated to bureaucratic and administrative procedures associated with ‘good governance’ and states become a mediating link between the separate spheres of domestic politics and international relations.¹³⁷

This process has been observed in Timor-Leste, where the state’s power to respond to local demands is restricted by its reliance on the international community.¹³⁸ Solutions to issues facing the nascent state must satisfy the requirements of donors and international institutions, constraining the options available to policymakers and eroding democratic accountability. The government’s lack of autonomy prevents it from embodying a collective expression of society, undermining political legitimacy and social cohesion and exacerbating the ‘alienation’ of the state from Timorese society.¹³⁹ The Timorese state has been embedded within international frameworks of governance that establish narrow boundaries for domestic policy and limit governmental authority within a set of externally determined

¹³⁵ Duffield; Chandler (2006)

¹³⁶ Chandler (2006), p. 38-39, 42; Fearon and Laitin, p. 42

¹³⁷ Chandler (2006), p. 43-45

¹³⁸ Hughes

¹³⁹ Ibid. p. 135, 155, 167

preferences. The state's authority to exercise sovereignty over domestic affairs has been curtailed, rationalized by the reconceptualization of sovereignty as state capacity. Through state-building discourse, these interventions appear less as external coercion than as internal administrative matters of good governance and institutional capacity building.¹⁴⁰

State-building initiatives in Timor-Leste since 1999 have sought to bolster the state's capacity to uphold peaceful relations and manage the development process, which is seen as crucial for the realization of sustainable peace. Meeting the challenges of peace and development has involved efforts by the international community to establish a specific set of institutional conditions seen as necessary for the provision of security (national and human security) and the fostering of market-based development. However, attempts to implement these 'core state functions' in Timor-Leste have met with limited success.

External expectations regarding financial management and public expenditure have been a regular point of contention. The post-independence Timorese government has been frequently criticized for its inability to execute its budget, and remains subject to ongoing 'capacity building' initiatives, which seek to strengthen the state's administrative capacity to carry out the public expenditure programmes laid out in successive budgets.¹⁴¹ As in many post-conflict countries, the government's ability to execute public initiatives in areas such as health, education, transportation, communications, and basic public services has been hampered by a lack of physical infrastructure. The new Timorese state has faced a particularly severe infrastructural deficit, after the scorched earth strategy of the Indonesian military destroyed an estimated 70-80 per cent of the territory's infrastructure in September 1999.¹⁴²

The management of natural resources has also proven highly controversial, with conflicting attitudes regarding state management of oil revenues demonstrating the asymmetrical power relations between the international community and domestic

¹⁴⁰ Chandler (2006), p. 43

¹⁴¹ Hughes attributes the Timorese government's poor budgetary execution to 'administrative bottlenecks' arising from staff inexperience and a highly centralized public administration. The Timorese state has been commended for demonstrating a high level of donor accountability, but this has had a negative impact in terms of public service provision and accountability to the Timorese people, with the rigid implementation of transparency and accountability measures hindering service delivery. See Hughes, p. 149-151.

¹⁴² J. Chopra. (2000) The UN's Kingdom of East Timor. *Survivor*. 42(3):27-40, p. 27-28
U.S. Department of State. (2001) East Timor. In *Country Reports on Human Rights Practices*.
<<http://www.state.gov/j/drl/rls/hrrpt/2000/eap/688.htm>> (Accessed 22 November 2012)

authority. Disputes over the use of the Timorese Petroleum Fund have highlighted the extent of international involvement in domestic governance and the means by which external conditionality operates within the state-building framework to restrict the possibilities for autonomous decision-making in subject-states. This issue will be explored in detail in Chapter Six.

Conclusion

State-building represents the most recent evolution of a historic convergence of the development and security communities, a mechanism for fulfilling the peace-building aspirations of the 1990s and implanting the conditions of the liberal peace within post-conflict states. As a central element of peace-building practice, it constitutes the transcendent contemporary manifestation of evolving efforts by the UN and other international agencies to address conflict and underdevelopment in developing countries. Typically emphasizing the importance of institutions and bolstered systems of state governance in achieving sustainable peace, state-building itself has evolved as a concept to incorporate a more political and societal focus. State-building is presented as the solution to security threats associated with state failure, to humanitarian catastrophes brought on by civil conflict, and poverty and underdevelopment associated with dysfunctional institutions.¹⁴³ This strategic convergence has ensured state-building's prominence within peace-building discourse.

Although conveyed as a largely technical process, the breadth of state-building activities afford an opportunity for the reconstitution of social, economic and political structures in post-conflict societies according to a liberal template, where previous systems have been problematized and a need for social transformation to support peace is widely accepted.¹⁴⁴ As such, state-building constitutes a mechanism for the implementation of liberal peace-building within subject states. Previous efforts to implement these liberal prescriptions foundered in the absence of a favourable institutional environment or strong states capable of managing the liberal transition. State-building efforts are concerned with the construction of the necessary institutions for the functioning and reproduction of the liberal peace within states of the global South.

¹⁴³ Duffield; Chandler (2006)

¹⁴⁴ Duffield, p. 123

Despite more recent conceptualizations of state-building, which pay lip-service to the political, endogenous nature of the state-building process, power in state-building relationships remains in the hands of the international community, who set the priorities which frame national decision-making and render national authority and domestic political processes subject to internationally-regulated frameworks of governance.¹⁴⁵ State-building involves the reconfiguration of the institutions of subject states in accordance with a Western model of statehood, with the requirements of external powers taking precedence over domestic priorities, and decision-making increasingly becoming separated from systems of political accountability. In practice, state-building has afforded a revitalization of structures of international regulation and dominance over countries of the global South, leading some critics to denounce it as a project of twenty-first century neo-imperialism. These claims will be explored in greater detail in the next chapter, which examines the interplay between discourses of development and state-building, and the way in which development policies have acted as mechanisms for the implementation of externally-generated structures of social and economic organization.

¹⁴⁵ Chandler (2006), p. 50

Chapter Three: NEO-LIBERAL DEVELOPMENT

Introduction

Since the 1990s, the liberal faith in the promise of market democracy to resolve both internal and external conflicts – known as liberal peace theory – has been the guiding principle of peace-building operations. From its inception, the peace-building agenda has strived to implement liberal relations in post-conflict states (or states considered at risk of conflict) through ambitious programmes of democratization and market reform. By the late 1990s, the failure of such initiatives to achieve peace and development using a template approach to marketization and liberalization in subject states had convinced international actors of the need for a deeper involvement with state institutions, in order to manage and perpetuate the profound social transformations associated with liberal transitions. To achieve this, the state-building project engineers the installation of systems of liberal governance in subject states in order to create favourable institutional conditions for liberal social, economic, and political relations.

Central to this liberal transition is the creation of market economic conditions in subject states. Whereas the peace-building operations of the 1990s sought to impose economic liberalization without significant engagement with national governments, the state-building agenda entails a far greater intrusion into the functioning and structure of states themselves. Bolstered by fears of weak statehood and the strategic and humanitarian threats this poses, state-building operations seek to reform state institutions themselves in order to establish favourable conditions for market-led development. Once introduced, the (neo-)liberal development model is to be sustained through the locking-in of reforms at an institutional level and the ongoing regulation of subject states by external institutions.

On what basis are neo-liberal prescriptions for development justified as a solution to conflict? As previous chapters have demonstrated, the prevailing attitude amongst the international community since the 1990s has been to locate the root causes of conflict in conditions of underdevelopment.¹ The liberal model of capitalist

¹ This identification of structural economic factors with a heightened potential for conflict is limited to internal economic conditions. Michael Pugh argues that the peace-building framework “attributes

development – based on the historical experiences of the Western tradition – is upheld as the solution to underdevelopment and poverty, and an essential element of efforts to prevent or resolve the conflicts said to spring from such conditions. This chapter contends that the more recent international preoccupation with strong statehood has arisen not only out of the perceived security threats emanating from weak and failing states, but also in response to the failures of peace-building efforts to implement liberal market conditions in the absence of a ‘correct’ institutional environment and facilitating state. Neo-liberal institutional reforms associated with the state-building project thus represent the latest incarnation of an evolving system of liberal peace-building, with international actors now turning to more intrusive means of reconstructing the social, economic, and political relations of post-conflict or ‘underdeveloped’ states.

This chapter charts the emergence of the neo-liberal development model as the dominant framework for international development. During the 1980s, the implementation of neo-liberal principles in ‘developing countries’ was primarily carried out through development initiatives associated with Washington-based international financial institutions, the World Bank and the International Monetary Fund. With the end of the Cold War, the neo-liberal paradigm has achieved widespread acceptance within international organizations (most significantly the United Nations), now forming the basis for international trade, financial, and development policy, and a template for economic policy within ‘developed’ and ‘developing’ countries alike. Since the 1990s, the neo-liberal development agenda has achieved further expression in the global South through liberal peace-building initiatives. In its most recent manifestation, the dissemination of international neo-liberal governance has been associated with the state-building project, through which economic reforms are administered at the domestic institutional level, locking in systems of neo-liberal organization in post-conflict states without the democratic oversight of local constituencies. This chapter will explore the process of neo-liberal institutional reform in states of the South, with reference to international state-building activities in post-conflict states, where the impetus for neo-liberal reform is held to be of greater urgency as a deterrent to future conflict.

economic dysfunctionality to societies, in their pre-conflict, conflict and post-conflict stages, rather than to any dysfunctional economic precepts, structures and conditionalities generated by expressions of capitalist power and ‘global governance’.” See Pugh, p. 24

Development as a Historical Construct

The term ‘development’ is defined in many different ways, a reflection of the myriad agents involved in development activities. It can be used in reference to an objective process, or to denote a desired goal, such as ‘sustainable development’. This view casts ‘development’ in neutral terms, a pathway to an empirical end state that is largely uncontested, and apparently impartial and universal.² Such is the concept of development deployed by many NGOs, international institutions, and policymakers worldwide – a descriptive term for a seemingly immutable, ahistorical and benevolent process to be carried out in ‘undeveloped’ areas, usually led by external representatives of the ‘developed’ world.

Critical approaches to development attempt to deconstruct development discourse in order to expose the structures of power and knowledge operating through it. Rita Abrahamsen views development not as a neutral process or end point, but as a historical construct that emerged in a particular historical context. The international development agenda arose in the early post-war period, in a time of increasing nationalism and demands for independence in the colonial territories of the global South. At this historic juncture, colonial powers sought to establish “new ways of managing and relating to these areas”, new systems of interaction for a post-colonial era that would nonetheless uphold the concentration of power in the North.³ Significantly, the global development project emerged during the period of Cold War rivalry – a rivalry that was largely contested in the ‘third world’. During this time, Western fear of Communism provided a strong motivator for development activity, with development initiatives geared towards establishing capitalist regimes to counter Soviet influence in the South.⁴

This study adopts the latter perspective, viewing development as a historically constructed discourse that represents powerful geopolitical and economic interests. As Arturo Escobar contends, development discourse is characterized by a “will to spatial power” over the South; the practices and initiatives that have arisen out of this discourse from the mid-twentieth century to the present constitute a “regime of government over the Third World, a “space for ‘subject peoples’” that ensures certain

² M.P. Cowen and R.W. Shenton. (1996) *Doctrines of Development*. New York: Routledge, p. 3

³ Abrahamsen, p. 19

⁴ Ibid, p. 19

control over it.”⁵ The content of this chapter rests on this understanding of ‘development’ as a historical construct – a term without fixed meaning, but one whose meaning has altered depending on when, by whom, and for what purpose it has been deployed. To apprehend the systems of knowledge and power structures that operate through development discourse, it is necessary to take a historical view which examines the evolution of the international development project from its inception in the post-World War Two era to the present day.

Development After World War II

The emergence of ‘development’ in its contemporary sense is generally attributed to the end of the Second World War, when immense reconstruction projects were implemented in Europe and Japan in order to prevent the reemergence of social and economic conditions associated with the onset of international conflict.⁶ In this context, the term ‘development’ is used to denote a process of ‘advancement’ or ‘progress’ within nations – a process understood primarily in terms of economic growth, but also generally involving the ‘modernization’ of economic, social, and political systems along Western lines, and the provision of basic social needs.⁷ This concept of development is global in scale, framing a division of the world into ‘developed’, ‘developing’, and ‘underdeveloped’ nations or regions.⁸

Abrahamsen describes the post-war period as the ‘era of development’ – a period which saw the beginning of the institutionalization of development with the emergence of development organizations such as the United Nations and the Bretton Woods organizations, the devising of national development plans, and the rise of ‘the development expert’.⁹ President Truman’s inaugural address on 20 January 1949 is considered a watershed event in the evolution of the development agenda. The Truman Doctrine ushered in a new era in international affairs, one in which the US

⁵ Escobar, p. 9

⁶ J. McKay. (2008) Reassessing Development Theory: ‘Modernization’ and Beyond. In *International Development: Issues and Challenges*, edited by Damien Kingsbury, John McKay, Janet Hunt, Mark McGillivray and Matthew Clarke, pp. 45-66. New York: Palgrave Macmillan, p. 53

⁷ R. Potter et al. (2004) *Geographies of Development*. Harlow: Pearson/Prentice Hall, p. 4-5

⁸ Within development discourse, these regions may also be referred to as ‘First World’ and ‘Third World’, ‘Global North’ and ‘Global South’, or ‘Rich Countries’ and ‘Poor Countries’. See Potter et al. p. 3

⁹ Abrahamsen, p. 16

and other ‘advanced’ societies assumed the task of replicating in underdeveloped nations the features of industrialized capitalist societies.¹⁰

Truman’s address introduced the term ‘underdevelopment’ to the international lexicon, a term that altered the meaning of development itself by implying a process of change towards a ‘final state’ – a process which may be enacted by agents upon societies and even entire regions. The new ‘developed’/‘underdeveloped’ dichotomy precipitated a dramatic shift in how North-South relations were perceived. Having previously been understood in terms of the relationship between colonizer and colonized, Gilbert Rist argues that the demarcation of members of the international system as either ‘developed’ or ‘underdeveloped’ posited a new relationship, one which reflected the legal equality of states in the new international regime.¹¹ This terminological shift also served to cast development as a predominantly internal process – albeit one which can be supported with external assistance – neglecting the impact of global economic and political factors on internal development.

In this estimation, underdevelopment was seen as a natural state of affairs, one without historical cause – or springing from a perceived lack of historical circumstances – and isolated from global patterns of expansion and accumulation. Underdevelopment was merely the rudimentary condition from which development was seen to have emerged, with economic growth as the driver of the transition between the two. Thus historical conditions that may explain the unequal position of countries according to this new international stratum could be overlooked. Henceforth all nations would be subject to the same ‘laws of development’ (which were believed to operate in the same way for all), as formally equal, individual entities rather than as members of an interdependent world structure.¹²

Prior to 1950, economic theories specific to development did not exist. The 1950s witnessed the birth of development economics as a discipline; academic interest in the economic plight of developing countries and the challenge of “rescu[ing] ... poor countries from their poverty”¹³ came to prominence in the field of economics, resulting in a proliferation of theories that took Truman’s notion of the

¹⁰ Escobar, p. 3-4

¹¹ Rist, p. 72-74

¹² Ibid. p. 74-75

¹³ J. K. Galbraith. (1979) *The Nature of Mass Poverty*. Cambridge: Harvard University Press, as quoted in Escobar, p. 57

underdeveloped economy as their object, and brought together the concepts of welfare and development which, prior to the Second World War, had remained separate.¹⁴

During the 1950s and 1960s the field of development was dominated by modernization theories. These theories equated development with economic growth and industrialization – to be achieved through deliberate state intervention – and social, cultural, and political modernization along Western lines.¹⁵ Perhaps the most influential advocate of modernization theory was Walt Rostow, whose 1960 publication *The Stages of Economic Growth* laid out a generic formula by which all nations might make the transition from ‘traditional society’ to modernity and development. Rostow’s vision conceived of development in evolutionary terms; through the application of certain economic ‘laws’, ‘all societies’ might reach the ‘final stage’ of development – an ‘age of high mass-consumption’ modelled in the West, to which all nations were presumed to aspire.¹⁶

This linear, evolutionary view of development was extremely influential in the 1960s and early 70s, and was reflected in all areas of the social sciences.¹⁷ Modernization theories promoted the Western model of capitalism and liberal democracy as the key to progressing beyond a state of underdevelopment. In this view, developed Western nations possessed the knowledge and duty to assist other nations to ‘catch up’.¹⁸ Modernization was conceived of as a primarily internal process, albeit one which may be assisted through external aid and investment.¹⁹ Deliberate state intervention in key sectors of the economy was prescribed in order to promote urban industrialization. However, investment and growth were to be concentrated in a few sectors only, with growth in urban cores expected to eventually ‘trickle down’ to peripheral regions. State intervention was thus conceived only in terms of industrial growth. States were not to intervene to address the inequalities necessarily arising from such an unbalanced growth process, as the principle of

¹⁴ Escobar, p. 72

¹⁵ Ibid. p. 74

¹⁶ Rist, p. 93-95

M. McGillivray. (2008) What Is Development? In *International Development: Issues and Challenges*, edited by Damien Kingsbury, John McKay, Janet Hunt, Mark McGillivray and Matthew Clarke, pp. 23-44. New York: Palgrave Macmillan, p. 24-25

¹⁷ Ibid. p. 24-25; McKay, p. 56

¹⁸ Potter et al. p. 84, 91

¹⁹ Such theories of course failed to recognize the crucial role of colonial expansion and ongoing neo-colonial patterns of accumulation in shaping the Western economic experience. ‘Underdeveloped’ societies were expected to emulate the Western model of industrial-led economic growth without reference to the international factors that fuelled European capitalist growth.

‘polarization’ required that spatial inequalities be permitted to develop in order to maximize economic growth.²⁰

This model has predictably given rise to geographically uneven processes of development. The failure of ‘trickle down’ policies to achieve an equitable distribution of the profits of industrial growth has contributed to persistent internal inequalities.²¹ Furthermore, critics of modernization theory argued that rather than a reduction of inequalities between nations, as anticipated by development economics, the disparities between developed and underdeveloped regions of the world were becoming more pronounced. The field came under attack for its homogenous approach to development; failing to recognize the divergent historical experiences and structural conditions of different countries and regions, proponents of modernization prescribed a fixed template for development despite vast differences in social, political, economic, cultural, and historical context. Modernization arguments also emphasized internal factors as a cause of underdevelopment, ignoring the central role of external factors.²² Dependency and World Systems theories emerged in response to mainstream development theory, drawing attention to the role of global capitalism in constituting conditions of development and underdevelopment.

One of the most prominent dependency theorists was Andre Gunder Frank, who brought the ideas of the dependency school to a wide readership in the late 1960s. Frank argued that the phenomenon of underdevelopment had arisen as a result of unequal relations between underdeveloped, ‘satellite’ regions and capitalist ‘metropolitan’ countries. The metropolises of the world had achieved economic development by extracting economic surplus from their colonial satellites, in a process that had persisted since the Spanish colonization of South America. He postulated that development and underdevelopment are interrelated processes, with the contemporary manifestation of underdevelopment less a result of internal factors (although the extraction of capital was assisted by internal agents) than a product of

²⁰ Potter et al. p. 84

²¹ Ibid. p. 84

²² This is also a prominent feature of contemporary development discourse. Neo-liberal approaches to development have emphasized the role of internal factors in contributing to underdevelopment, tending to overlook or de-emphasize the importance of external factors, such as international economic structures and relations of inequality. See McKay, p. 60; J. T. Roberts and A. B. Hite. (2007) *The Globalization and Development Reader: Perspectives on Development and Global Change*. Malden: Blackwell Publishing, p. 8

the asymmetrical incorporation of countries into a hierarchical global system.²³ Immanuel Wallerstein expanded on dependency arguments by conceiving of the world economy as a 'world-system', comprising an 'extensive division of labour' based on functional and geographic divisions. He termed the components of this system 'core' and 'periphery' – corresponding to the concepts of 'metropolis' and 'satellite' in Frank's analysis – yet argued that an intermediary level exists which acts as a mediator between the two, known as the 'semi-periphery'.²⁴

Dependency theories – although themselves subject to error, critique and revision – provided a valuable analysis of the historical process of development, locating development within a broader history of colonial exploitation and refuting the homogenizing nature of modernization theories. The unequal international structures they highlighted are still instructive for contemporary analyses of economic development. However, these arguments never succeeded in usurping the dominance of classical liberal narratives within development discourse, and were soon eclipsed by conservative trends in development economics that arose out of the troubled conditions of the 1970s.

Despite historical developments since the 1960s and the corresponding evolution of development theory beyond modernization arguments, some critics maintain that many of the assumptions of modernization continue to drive contemporary development discourse. Vestiges of modernization theory can be discerned in arguments for peace-building and democratization, which share the same commitment to market-centred economic growth and liberal democracy and echo the claim that developing nations can achieve a high level of development by emulating the development trajectory followed by Western nations.²⁵

The Emergence of the Neo-liberal Development Model

The concept of 'neo-liberalism' has become a commonly referenced term in academic and political debate in recent decades. However, definitions of neo-liberalism itself are often vague and fail to acknowledge the pluralistic nature of neo-

²³ A. G. Frank. (2007) The Development of Underdevelopment. (1969) In *The Globalization and Development Reader: Perspectives on Development and Global Change*, edited by J. Timmons Roberts and Amy Bellone Hite, pp. 76-84. Malden: Blackwell Publishing.

McKay, p. 60-61

²⁴ I. Wallerstein. (2011) *The Modern World-System I: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century*. Berkeley: University of California Press, p. 348-50

²⁵ Schellhaas and Seegers

liberal ideas. Critical literature – where the term is most frequently invoked – frequently overlooks the concept’s internal diversity and presents it instead as a unified political ideology.²⁶ In reality, neo-liberalism is not one homogenous philosophy, but represents a range of varying positions. In recognition of this, scholars such as Dag Thorsen and Amand Lie prefer to consider neo-liberalism as a “loosely demarcated set of political beliefs”²⁷, whilst Plehwe et al. discuss it in terms of a ‘plural’ set of ideas.²⁸ Suffice to say that neo-liberalism comprises a range of beliefs and internal divisions, however it is not the purpose to examine such internal debates here.

The intellectual roots of the neo-liberal movement can be located in the conservative opposition to Keynesian policy that persisted throughout the postwar decades, particularly in the United States. In 1947, a collection of academics led by Friedrich von Hayek formed the Mont Pelerin Society, a group committed to the principles of nineteenth century neoclassical economics. Members of the group described themselves as ‘liberals’, owing to their strong commitment to principles of personal freedom and individualism (hence the term ‘neo-liberalism’). The Mont Pelerin Society viewed the market as the optimal mechanism for orchestrating human behaviour and social organization, and strongly opposed all forms of state intervention and central state planning.²⁹ This organization was marginalized from political and academic circles until the erosion of official Keynesianism in the 1970s, when it began to exert considerable influence in the university and to gain political prominence in the United States and Britain.³⁰

Essentially, neo-liberalism is a revival of the principles of economic liberalism that has taken place since the 1970s. Sometimes referred to as neoclassical liberalism, neo-liberalism constitutes a return to many of the principles of classical nineteenth century liberalism. It is important to note some significant differences between classical liberal ideology and modern liberalism. Classical liberalism subscribes to the notions of self-interest and individualism, viewing society as an atomistic collection

²⁶ D. Plehwe et al. (2006) *Neoliberal Hegemony: A Global Critique*. London: Routledge, p. 2
D.E. Thorsen and A. Lie. (2006) ‘What Is Neoliberalism?’ Department of Political Science, University of Oslo. Online at <<http://folk.uio.no/daget/neoliberalism.pdf>> (Accessed 9 December 2014), p. 2, 11-12

²⁷ Thorsen and Lie, p. 14

²⁸ Plehwe et al. p. 2

²⁹ D. Harvey. (2005) *A Brief History of Neoliberalism*. Oxford: Oxford University Press, p. 19-21

³⁰ Ibid. p. 22

of largely self-reliant individuals. Freedom is viewed in negative terms as the absence of interference or coercion. As a result, classical liberalism is typified by a strong distrust in state authority and a preference for minimal government.³¹ Economic liberalism forms a part of this classical liberal tradition, viewing the economy as a market operating in accordance with natural laws. Market forces are seen as naturally coordinating the self-interest of individuals and promoting maximal economic prosperity.³² However, economic liberalism is not simply an economic ideology; it carries a number of wider social and political implications that amount to an entire system of social organization. Adherents of neo-liberalism sought a return to such principles against a tide of popular support for government intervention in economic affairs, proclaiming themselves ‘neo-liberal’ to signify their adherence to the tenets of classical – and in particular economic – liberalism.³³

Modern liberalism differs from nineteenth century liberalism in a number of ways, particularly in its attitude to the state. The modern-day liberal concedes a much greater role for the state in the economy, with liberal states characterized by considerable market regulation and government provision of essential goods and services. Markets are not assumed to operate in a spontaneous, self-regulating manner unless they are embedded within a strong pro-market institutional and political framework. Thus, whilst liberalism shares a common ideological heritage and commitment to individualism, it represents a significant revision of its nineteenth century counterpart.³⁴

The characteristics of neo-liberalism – in particular its international manifestations – are often attributed to the process of globalization. However, although the two are related, they remain distinct mechanisms. Globalization refers to the internationalization of the world economy – a centuries-old process that began with European colonization in the sixteenth century, identified by Marx in the nineteenth century as a fundamental tendency of capitalism.³⁵ Duménil and Lévy point out that the growth of international trade, capital movements, and the world

³¹ A. Heywood. (2007) *Political Ideologies: An Introduction*. Fourth ed. Houndmills: Palgrave Macmillan, p. 44-45

³² Ibid. p. 48-50

³³ Ibid. p. 52

P. G. Cerny. (2008) Embedding Neoliberalism: The Evolution of a Hegemonic Paradigm. *The Journal of International Trade and Diplomacy* 2(1):1-46.

³⁴ Cerny, p. 5-10; Thorsen and Lie, p. 4-7

³⁵ G. Duménil and D. Lévy. (2005) The Neoliberal (Counter-) Revolution. In *Neoliberalism: A Critical Reader*, edited by Alfredo Saad-Filho and Deborah Johnston, pp. 9-19. London: Pluto Press, p. 9-10

economy are not neo-liberal phenomena; they are essential characteristics of capitalist globalization. Rather, the term neo-liberalism refers to “‘new rules’ of the functioning of capitalism”³⁶ – a system of thought and set of policies that emerged in the latter half of the twentieth century.

Fundamentals of Neo-liberalism

Despite considerable diversity within the neo-liberal camp, there are certain fundamental ideas upon which neo-liberals agree. The central element of neo-liberal doctrine is a commitment to the free market principles of liberal economics. Andrew Heywood describes neo-liberalism as a form of ‘market fundamentalism’, in which markets are seen as “morally and practically superior” to political authority and thus promoted as the primary organizing force in society.³⁷ Advocates contend that markets unleash the individual creativity and entrepreneurial freedoms that are necessary for society’s economic prosperity.³⁸ Markets, it is argued, comprise a ‘spontaneous order’ in which the laws of supply and demand will naturally determine the most efficient allocation of resources in a competitive society of self-interested individuals.³⁹

Competition is seen as the most effective means of coordinating individual efforts in any society. In a competitive order, prices will be determined freely according to market values without the intervention of government, which economic liberals believe merely serves to distort prices and undermine the natural functioning of the market system. Neo-liberals are typically characterized by a deep mistrust of government, due to the potential for political powers to encroach upon individual liberties. However, an important positive role for government is asserted in establishing the institutional framework for the functioning of the market – in particular the protection of strong and clearly defined property rights, which are essential for market exchange.⁴⁰

The market system is founded upon a particular understanding of human nature, which views humans as rational beings motivated by self-interest.

³⁶ Ibid. p. 10

³⁷ Heywood, p. 52-53

³⁸ Thorsen and Lie, p. 14-15; Harvey, p. 2

³⁹ F. A. Hayek. (1944) *The Road to Serfdom*. London: Routledge.

⁴⁰ Hayek, p. 37-38; Harvey, p. 2

M. Friedman. (2002) *Capitalism and Freedom*. 40th Anniversary ed. Chicago: University of Chicago Press.

Furthermore, individuals' maximizing behaviour is held to be informed by preferences that remain stable regardless of context; human decisions are based on pleasure versus pain calculations, and individuals across different time periods, cultures, and socio-economic groups will therefore choose to act in a way that maximizes their own self-interest.⁴¹ Market advocates argue that the market system offers the most effective means to utilize human nature for the benefit of society. Individuals acting according to their own material self-interest can indirectly facilitate economic prosperity in a market system, in which the laws of supply and demand efficiently direct the behaviour of participants and allocate scarce resources.⁴² Market society is thus conceived of as a means of efficiently coordinating large groups of people acting in accordance with their own inherent natures. This equation of economic rationality with the pursuit of material self-interest is held to be a universal human trait, justifying efforts to transplant market systems in non-liberal societies.⁴³

Market adherents subscribe to the ideals of individualism, freedom, and liberty, and believe the market mechanism maximizes the potential for individual freedom. Prominent neo-liberal figures such as Friedrich Hayek and Milton Friedman emphasize the importance of liberty and individual freedom, postulating that the market system alone is capable of preserving maximal freedom. Friedman views freedom – more specifically the freedom of the individual – as the ultimate social, political, and economic good, one which is primarily threatened by the concentration of power. In order to prevent the concentration of power and maximize freedom, economic and political power must be separated. A free market system ensures the dispersal of power by placing economic power in the hands of private individuals, thus serving to offset the political power of the state. Where some concentration of power is necessary – as it is in government – this threat can be mitigated by checks and balances and decentralization. Capitalism, in this estimation, is a necessary prerequisite for political freedom, as it removes economic activity from political control, thus preventing the abuse of the economic sphere for coercive purposes, and establishing economic power as a check to political power.⁴⁴

⁴¹ G. Becker. (1998) The Economic Approach to Human Behavior. In *Federal Judge's Desk Reference to Environmental Economics*, edited by John A. Baden, pp. 130-35: The Pacific Research Institute for Public Policy, p. 131-132

⁴² Heywood, p. 48-50, 52-53

⁴³ D. Williams. (1999) Constructing the Economic Space: The World Bank and the Making of Homo Oeconomicus. *Journal of International Studies* 28(1):79-99.

⁴⁴ Friedman, p. 10-12, 15

Whilst neo-liberals conceive of state power as a threat to individual freedom, they accept that some degree of governmental authority is necessary in order to regulate society and promote a competitive market order. The functioning of the market system is dependent upon the maintenance of law and order, in order to prevent coercion between individuals and to enforce contracts voluntarily entered into.⁴⁵ Friedman argues that human nature is imperfect, making the goal of absolute freedom impossible. The full exercise of each individual's freedom will inevitably lead to conflict with others, necessitating an established system of law and order, and the concession of a degree of individual freedom for the good of society.⁴⁶

Despite distrust of government authority, neo-liberals conceive of a crucial role for government in creating and maintaining the conditions necessary for the competitive order. Market mechanisms can only operate if certain rules and prerequisites are upheld, such as the safeguarding of property rights, the enforcement of contracts, and the breaking up of monopolies. Government is therefore required as a means of establishing and enforcing the rules of the market.⁴⁷ Beyond the maintenance of law and order, the primary function of the neo-liberal state is in providing "a framework within which free competition [can] flourish and the price system operate effectively."⁴⁸ Once this framework has been put in place, entrusting the majority of economic and social affairs to market forces drastically reduces the scope of political activity, thus, it is argued, minimizing the potential for government encroachments on individual freedom.⁴⁹

Economic Crisis and the Rise of Neo-liberal Development:

Whilst the birth of the neo-liberal intellectual movement is generally attributed to the formation of the Mont Pelerin society in the late 1940s, it would be several decades before neo-liberal ideas would come to exert a considerable influence on development theory and practice. Neo-liberal ideas remained relatively inconsequential during the early post-war era, its adherents relegated to the margins of public and academic circles until the tumultuous economic conditions of the 1970s. However, this period of economic crisis and the breakdown of official Keynesianism afforded an opportunity for the rapid growth of neo-liberal influence at both the

⁴⁵ Ibid. p. 14

⁴⁶ Ibid. p. 25-26

⁴⁷ Hayek, p. 40

⁴⁸ Ibid. p. 3

⁴⁹ Ibid. p. 15

domestic and international levels. Political administrations in powerful countries such as the United States and Britain were among the first to adopt neo-liberal principles, after which they quickly gained influence in international financial institutions and development organizations. By the late 1980s, neo-liberalism had emerged as the dominant model for international development, and the foundation of a global economic system centred in the advanced capitalist economies for replication in countries of the global South.⁵⁰

The first two and a half decades after the Second World War were dominated by Keynesian approaches to economics. Keynes argued that capitalist economies are prone to crises, during which aggregate supply exceeds aggregate demand, resulting in large-scale unemployment. To address this weakness in capitalist systems, Keynes argued for regular government intervention to increase public expenditure and reduce taxes and interest rates, in order to stimulate demand and decrease unemployment. He advocated the use of monetary and fiscal measures in order to mitigate the effects of economic recession. Most capitalist governments adopted Keynesian economic policies during the 1950s and 60s.⁵¹

During the 1950s and 1960s, employment levels remained high and real wages rose steadily in the US and Western Europe. States involved themselves directly in the workings of the capitalist economies, with governments in some states assuming ownership of a high proportion of productive capacity and implementing expansive welfare systems to address health, education, housing, and unemployment.⁵² This period was characterized by a ‘class compromise’ between capital and labour, with states intervening in industrial policy and supporting forums that brought together labour and management to negotiate wages and working conditions. Such arrangements served to restrain the economic power of the upper classes and afforded labour a considerable share of economic benefits.⁵³

Support for Keynesianism eroded in the aftermath of the oil crisis of 1973-4, with the impacts of the oil shock coinciding with the end of the postwar economic boom and escalating debt associated with the Vietnam War, resulting in high unemployment, high inflation, and large government deficits. Economic interventions

⁵⁰ Harvey, p. 22-26; Cerny, p. 11-15

⁵¹ C. Lapavistas. (2005) Mainstream Economics in the Neoliberal Era. In *Neoliberalism: A Critical Reader*, edited by Alfredo Saad-Filho and Deborah Johnston, pp. 30-40. London: Pluto Press, p. 31-32

⁵² Ibid. p. 31-33

⁵³ Harvey; Cerny, p. 12

along Keynesian lines failed to avert economic crisis, and governments were forced to reduce expenditure and implement tight monetary policies in an attempt to reduce budget deficits and curb inflation. Under increasing economic pressure, the system of fixed exchange rates implemented by the Bretton Woods Agreement was abolished and floating exchange rates introduced in 1973.⁵⁴ The disintegration of Keynesian policies and the means by which governments attempted to address the economic crisis were critical factors that would determine the future of development policy.

Governments responded to the conditions of the mid-late 1970s by abandoning attempts to secure full employment, reducing previous levels of welfare provision, and privatizing state-owned industries.⁵⁵ Budgetary pressure, stagflation⁵⁶, and deteriorating relations between labour, management, and government bureaucracy – together with international economic decline and the shift to floating exchange rates – precipitated the breakdown of postwar mechanisms of labour negotiation and facilitated a move toward economic conservatism.⁵⁷ The breakdown of the postwar Keynesian ‘consensus’ cleared the way for the rise of neo-liberalism in the developed capitalist countries. Crucial elections in the UK and the US in 1979 and 1980 brought Margaret Thatcher and Ronald Reagan to power, who orchestrated the neo-liberal turn within their respective countries and spearheaded an international shift towards neo-liberal policy.⁵⁸

Some ‘neo-liberal’ policies had been proposed throughout the 1970s in an attempt to curb inflation and end recession, but it was the rise to power of the administrations of Margaret Thatcher and Ronald Reagan that facilitated the dramatic consolidation of neo-liberalism. Both leaders sought to roll back the commitments of the Keynesian welfare state, and attempted to promote business interests by reducing taxes, privatizing state enterprises, and attacking trade unions and other forms of organized labour. Economic and financial deregulation in the national context was coupled with efforts to reduce barriers to the free movement of goods, services, and capital across borders, producing unprecedented freedom and influence for finance

⁵⁴ S. Clarke. (2005) *The Neoliberal Theory of Society*. In *Neoliberalism: A Critical Reader*, edited by Alfredo Saad-Filho and Deborah Johnston, pp. 50-59. London: Pluto Press, p. 58

Lapavitsas, p. 33; Duménil and Lévy, p. 11

⁵⁵ Lapavitsas, p. 33

⁵⁶ ‘Stagflation’ is a term used by economists to describe combined conditions of stagnation and inflation, when economic growth rates decrease, yet unemployment and inflation rates remain high.

⁵⁷ Cerny, p. 12-14

⁵⁸ Ibid. p. 14

capital.⁵⁹ This process of international liberalization coincided with the rapid accrual of financial power in the oil-producing states as a result of the oil price hike of 1973. Much of this wealth was invested in US private banks, which now controlled vast surpluses for which they sought profitable outlets. These funds formed a pool of capital for lending to foreign governments – particularly the governments of developing countries, which borrowed heavily during this period.⁶⁰ This established the preconditions for the neo-liberalization of international development; from the 1980s, global financial conditions would drive the rapid incorporation of developing countries into the international economy, which was achieved through the process of structural adjustment.

In 1979, the US Federal Reserve Bank raised the rate of interest in an effort to suppress inflation, triggering a series of defaults by indebted developing countries, which were no longer able to service their loans.⁶¹ As a condition for debt rescheduling (for both official and private debt), the IMF implemented ‘structural adjustment’ programmes that required debtor countries to systematically deregulate and liberalize their economies.⁶² Governments were required to privatize state industries, reduce public expenditure (including government spending on welfare, healthcare, and education), weaken systems of labour regulation, and devalue their national currency. Adjustment conditions also extended beyond stabilization policies to incorporate trade and financial liberalization; trade barriers were to be removed and restrictions on foreign capital dismantled, enabling national assets to be purchased by foreign companies.⁶³ Thus structural adjustment succeeded in transplanting neo-liberal policies into developing countries in a relatively short space of time, and the economic fate of countries that underwent liberalization was now more systematically tied to the vagaries of international markets.

Throughout the following decade, the Washington-based financial institutions – the World Bank, the International Monetary Fund (IMF), and the US Treasury – adopted a similar set of broad policy prescriptions that came to be known as the

⁵⁹ Harvey, p. 22-25

⁶⁰ Ibid. p. 27-29

⁶¹ Ibid. p. 23; Duménil and Lévy, p. 17

⁶² J. Hunt. (2008) Aid and Development. In *International Development: Issues and Challenges*, edited by Damien Kingsbury, John McKay, Janet Hunt, Mark McGillivray and Matthew Clarke, pp. 74-103. New York: Palgrave Macmillan, p. 84

⁶³ Cerny; Harvey, p. 29; Abrahamsen, p. 38

‘Washington Consensus’.⁶⁴ This framework emphasized ‘getting the prices right’, to be achieved by dramatically reducing state involvement in the economy and ‘freeing’ interest rates and exchange rates. It was argued that market processes would oversee the allocation of resources more efficiently than any state.⁶⁵ The tenets of the Washington Consensus had informed the structural adjustment policies of the 1980s and set the agenda for development policy from this time forth. Associating poor economic progress in developing countries with excessive state intervention, this approach constituted a wholesale assault on the national developmentalism that had prevailed since the Second World War.⁶⁶

The neo-liberal ‘counter-revolution’ established a new development model based on market liberalism, trade openness, and a minimal state, to be undergirded by a strong emphasis on individualism.⁶⁷ The implementation of these policies would constitute a radical social transformation in the developing world, as witnessed in the case of Timor-Leste, which will be discussed in later chapters.

Embedding Neo-liberalism:

From State Roll-back to State-building for Markets

As has been demonstrated, the ‘neo-liberal revolution’ of the late twentieth century gave rise to a broad consensus (amongst key governments and institutions) in favour of liberal economic policies. During the 1980s, mainstream economists came

⁶⁴ The ‘Washington Consensus’ is a descriptive term coined by John Williamson to refer to a set of ten economic policies regarded by ‘Washington’ as desirable. Williamson argued that these policy prescriptions constituted an implicit consensus within key economic institutions, including the U.S. government administration and governmental agencies, the Washington-based international financial institutions, the Federal Reserve, and think tanks.

See J. Williamson. (1990) What Washington Means by Policy Reform. In *Latin American Readjustment: How Much Has Happened*, edited by John Williamson, pp. 7-40. Washington, D.C.: Institute for International Economics; B. Scott. (2011) *Capitalism: Its Origins and Evolution as a System of Governance*. New York: Springer, p. 357-359

⁶⁵ Whilst Williamson emphasized monetary and fiscal discipline, the reduction or elimination of subsidies, and general liberalization and deregulation in economic policy, his original ten points also recommended the *prioritization* of public expenditure towards healthcare, primary education, and public infrastructural development. These recommendations were largely overlooked by IFIs during the structural adjustment era, which emphasised large-scale reductions in public expenditure and social services. In practice, reductions in state funding and the introduction of user fees to further decrease the cost of public services has also reduced access to health and education, exacerbating hardships for those living below the poverty line. See Abrahamsen, p. 40; Harrison, p. 41

⁶⁶ Z. Öniş and F. Şenses. (2005) Rethinking the Emerging Post-Washington Consensus. *Development and Change* 36(2):263-90, p. 263-264

P. Cammack. (2002) Neoliberalism, the World Bank, and the New Politics of Development. In *Development Theory and Practice: Critical Perspectives*, edited by Uma Kothari and Martin Minogue, pp. 157-78. Houndmills: Palgrave.

⁶⁷ Öniş and Şenses, p. 263-264

to view rapid economic growth not as a matter of natural, physical, or human resources, but as a result of the economic policies pursued by governments. In the development arena this translated into an array of ‘pro-market’ prescriptions based on a set of apparently universal principles for economic growth, to be implemented in developing countries through structural adjustment.⁶⁸ However, these adjustment policies failed to produce the expected results, with inconsistent – often negative – economic results and tremendous social disruption in participating countries requiring development economists to reexamine their policies or cast around for a suitable culprit for the failure of adjustment to stimulate economic growth. The explanation the development community arrived at would pave the way for the development and state-building initiatives of the twenty-first century. The failure to achieve economic growth was attributed not to the programmes themselves, but to ‘poor governance’ and the failure of state institutions to successfully implement the correct economic policies.⁶⁹ From this point on international development institutions would no longer bypass the state, but would seek to engineer a *reconfiguration* of the state in developing countries in a manner consistent with the goals of neo-liberal development.

The Crisis of Structural Adjustment and the Reconceptualization of the State

The impacts of adjustment have been subject to considerable dispute. Claims by the World Bank in the late eighties and nineties that adjustment had improved economic performance and raised living standards have been refuted by academics and influential organizations alike. The United Nations Economic Commission for Africa came to the opposite conclusion, and charged the Bank with selectivity and poor methodology in its analysis. Critics have used the same data used by the Bank to demonstrate adverse economic outcomes for adjusting countries, leading them to reject the Bank’s argument that the greater the levels of implementation in adjusting countries, the better the results. In particular, countries implementing structural

⁶⁸ Craig and Porter, p. 12; Cammack, p. 159

Structural adjustment programmes (SAPs) can be understood as ‘template’ programmes of economic liberalization. Whilst programmes varied to a degree in accordance with the specific conditions of different countries, the core policies remained the same: the elimination of exchange rate controls (generally resulting in currency devaluation), reduction of money supply, reduced public expenditure, increased interest rates, the removal of price controls, and the opening up of the economy to allow for foreign direct investment and privatization.

See G. Harrison. (2010) *Neoliberal Africa: The Impact of Global Social Engineering*. London: Zed Books, p. 39

⁶⁹ Abrahamsen, p. 40-41

adjustment demonstrated low levels of investment even where GDP and export growth had occurred – an uncomfortable trend the Bretton Woods institutions have been forced to acknowledge. While in many cases adjustment does appear to have resulted in export growth, negative investment indicators and a lack of improvement in national income have countered positive outcomes in this area.⁷⁰

Despite enduring disagreement regarding the economic impacts of structural adjustment, the deleterious social and humanitarian impacts of adjustment have been more difficult to refute. A series of reports and studies have confirmed that adjustment programmes tend to result in an increase in aggregate poverty. Cases in which a degree of macro-economic stability *has* been achieved have done so at the expense of human welfare, with the reduction of public services, rising unemployment and decreasing real incomes fuelling greater levels of social immiseration.⁷¹ Levels of poverty and absolute poverty increased during the adjustment decade (1980-90) and developing countries' economies underwent a period of economic stagnation, leading many commentators to refer to the period as the 'lost decade' of development.⁷²

Overall, structural adjustment failed to deliver on the promise of market-led development. Economic outcomes in adjusting countries were poor or mixed at best, and the social impacts disastrous for large segments of the population. In Sub-Saharan Africa – as in other developing areas – the combination of low economic growth and decreased state expenditure in areas such as health and education only magnified social hardship.⁷³ What the adjustment experiment *did* achieve was a general liberalization of the economies of subject countries; in a relatively short space of time, adjustment programmes succeeded in bringing about a dramatic reduction in the role of the state, the privatization of public sector industries and activities, and the removal of state controls over imports, exports, and foreign exchange.⁷⁴ At a superficial level, neo-liberal policies had been grafted into the social, economic and political relations of a host of developing countries. Future developments would serve to embed market relations more thoroughly within the fabric of developing countries, by seeking to engage the state in the implementation of reforms.

⁷⁰ Ibid. p. 39-40

⁷¹ Ibid. p. 40

⁷² W. Easterly. (2001) The Lost Decades: Developing Countries' Stagnation in Spite of Policy Reform 1980-1998. *Journal of Economic Growth* 6(2):135-57.

⁷³ Harrison, p. 41

⁷⁴ Abrahamsen, p. 38

The reasons for the failure of structural adjustment policies to deliver expected development outcomes were ultimately attributed not to the economic assumptions that guided them, but to the failure of states themselves.⁷⁵ Reflecting the prevailing development views of the time, IFIs had up to this point sought to circumvent state involvement in development policy, aiming to promote maximum market efficiency and growth by preventing economic interference by interventionist states. However, this method of dictating policy from afar and using the threat of discontinued financial assistance to ensure compliance – whilst in most cases succeeding in dismantling systems of state involvement in social and economic policy – did little to implant liberal policies in subject societies. James Ferguson argues that the era of structural adjustment failed to develop ‘new technologies of government’ or produce ‘responsibilized’ citizens.⁷⁶ The ‘crisis of structural adjustment’ was thus transformed into a “crisis of ‘governance,’ for which the appropriate remedy is a reform of ... governments”.⁷⁷

A new strategy would be required to normalize neo-liberal modes of governance – a requirement to be fulfilled by the good governance project of the 1990s. Having concluded that the problem lay not in the policies themselves – but rather in the institutional climate within which these policies were enacted – development economists at key institutions now concluded that the success of market-led development relied on strong *enabling* states, capable of ensuring the necessary institutional basis for economic growth.⁷⁸ The governance agenda thus represents a modification of the neo-liberal development orthodoxy of the 1980s, a necessary innovation for managing the adjustment effort that recognized the extent to which economic reforms hinged upon the reformation of the state.⁷⁹ This shift – rather than a departure from neo-liberalism – can be understood an extension of neo-liberal order on a global scale, the logical progression of an era of neo-liberal institutionalism which views the state as the essential tool for the embedding of neo-liberal organization in societies, particularly in the global South.⁸⁰

⁷⁵ Ibid. p. 40-41

⁷⁶ J. Ferguson. (2010) The Uses of Neoliberalism. *Antipode* 41(s1):166-84, p. 173

⁷⁷ ———. (1995) From African Socialism to Scientific Capitalism: Reflections on the Legitimation Crisis in IMF-Ruled Africa. In *Debating Development Discourse: Institutional and Popular Perspectives*, edited by David B. Moore and Gerald J. Schmitz, pp. 129-48. London: Macmillan, p. 142

⁷⁸ Craig and Porter, p. 12-13

⁷⁹ Abrahamsen, p. 41-42

⁸⁰ Ibid.

It is therefore out of the crises of neo-liberalism in the 1980s that efforts to reinvent neo-liberal modes of development arose, giving rise to the large-scale restructuring of international (and national) institutions. This process – sometimes referred to as ‘neo-liberal institutionalism’⁸¹ or the ‘post-Washington Consensus’⁸² – has seen neo-liberalism come to pervade “all forms of international regulation, making imposition less pressing than reproduction and consolidation.”⁸³

Craig and Porter identify the period from 1981 to the present as the ‘age of institutional development’, during which the implementation of neo-liberal policy was furthered through the embedding of neo-liberal principles in institutions.⁸⁴ Since the 1990s, this process of ‘neo-liberal institutionalism’ has taken as its object the state – viewed not as a barrier to liberal development, but as a partner and facilitator in this undertaking.⁸⁵ In an international system characterized by multiple layers of governance and authority, the state is the gateway and necessary agent for the transplantation of neo-liberal relations into societies; it is the only institution with the authority to establish the legal basis for market organization. The state must be engaged with and transformed – rather than bypassed – if the neo-liberal development promise is to be achieved. Formulating appropriate state institutions for this task is the aim of the agents and organizations of neo-liberal institutionalism – the national governments, development agencies, international organizations, NGOs, and IFIs involved in international development – and a central goal of the state-building project.

Embedding Market Rationality in Society: The Role of the Neo-liberal State

The reconceptualization of the state has been driven by a crisis of neo-liberal development, necessitating new methods for advancing the neo-liberal development model in the South.⁸⁶ Supporters of market economics maintain that markets represent the form of economic and social organization most consistent with human nature. All people are said to possess an inherent ‘economic rationality’ that predisposes them to market arrangements, which enshrine the pursuit of self-interest as a social and

⁸¹ Craig and Porter, p. 13

⁸² Öniş and Şenses

⁸³ Harrison, p. 91

⁸⁴ Craig and Porter, p. 13

⁸⁵ World Bank (1997)

⁸⁶ G. Schmitz. (1995) Democratization and Demystification: Deconstructing 'Governance' as Development Paradigm. In *Debating Development Discourse: Institutional and Popular Perspectives*, edited by David B. Moore and Gerald J. Schmitz, pp. 54-90. London: Macmillan, p. 64-69

economic good that promotes optimal human welfare and freedom. Liberal economics is based on a specific understanding of human nature, and the legitimacy of the market system is attributed to the presence of certain traits in *all* human beings, regardless of culture, historical context, social status, or other variations of context.⁸⁷ However, the failure to regularize neo-liberal relations in non-liberal states during the adjustment decade has required a modification of neo-liberal orthodoxy with regard to the role of the state in facilitating the construction of institutional environments which support this ‘inherent’ economic rationality.⁸⁸

David Williams disputes liberal claims regarding the existence of a fundamental, market-oriented ‘economic rationality’ within all persons. Such assertions represent a legitimizing discourse that portray market-based economic arrangements as natural to all societies: if market characteristics are an inherent part of human nature, then market structures constitute a natural, universal system of economic organization.⁸⁹ Williams points to the efforts of international organizations such as the World Bank in attempting to instill these apparently natural traits into societies in developing countries as evidence that such characteristics are not in fact natural, but constructed. In attempting to spread market-based systems around the world, these institutions “attempt to construct the traits of economic rationality upon which the naturalness of the economy is supposed to rest.”⁹⁰ In practice, development activity clashes with mainstream narratives that depict the market economy as fundamentally natural. On the ground, far from receiving experiential validation of the inherent nature of market characteristics, the World Bank and other development organizations have discovered that “economic development requires detailed transformations in institutions and habits, attitudes, and mores.”⁹¹

As the poor record of prior initiatives to instill liberal market conditions in non-liberal societies demonstrates, market economies cannot function in the absence of an enabling institutional environment. The role of pro-market institutions is particularly vital in environments in which liberal markets have not previously existed: for the neo-liberal development model to succeed, neo-liberal institutions must be constructed to orchestrate the liberal transformation. Williams argues that the

⁸⁷ Williams

⁸⁸ Schmitz, p. 64

⁸⁹ Williams, p. 79

⁹⁰ Ibid. p. 79

⁹¹ Ibid. p. 80

activities of international organizations and institutions in the global South constitute a “detailed and intrusive” effort to construct the foundations of a market system in subject countries.⁹² A new economic rationality has to be established in such societies with the state now acting as a “central agent in the construction of the economy and the traits which underpin it.”⁹³ This vision of the state signifies a marked departure from past development policy. The failure of previous liberal development initiatives to achieve desired growth outcomes or to embed neo-liberal principles in subject societies has necessitated a ‘shift in neoliberal codification’ to incorporate a focus on efforts to reconstitute state institutions themselves.

Redefining Statehood: The World Bank and the Neo-liberal State

The World Bank has played a pioneering role in this redefinition of the state. The 1991 World Development Report outlined a new ‘market-friendly’ approach to development, one that incorporated a rejuvenated role for the state in fostering development outcomes. This approach continued to uphold the market as the optimal organizing mechanism for the production and distribution of goods and services in society, yet emphasized the importance of the state in providing the necessary legal and regulatory framework for the proper functioning of the market.⁹⁴ While expressing support for the ongoing process of privatization of state-owned enterprises and other measures to foster market competition, the report argued that:

[T]he proper economic role of government is larger than merely standing in for markets if they fail to work well. In defining and protecting property rights, providing effective legal, judicial, and regulatory systems, improving the efficiency of the civil service, and protecting the environment, the state forms the very core of development.⁹⁵

The report identified institutions as the key variable in achieving effective market-led development. This publication represents a watershed moment in neo-liberal development discourse. International neo-liberal development was required to reinvent itself after the failure of 1980s orthodoxy; revised development policy would involve a new engagement with states in order to construct the foundations of market organization in developing countries. This new discourse incorporated the concept of

⁹² Ibid. p. 80

⁹³ Ibid. p. 86

⁹⁴ World Bank (1991), p. 1, 4

⁹⁵ World Development Report (1991), p. 9

the ‘enabling’ state as an essential feature of market societies, and a means of facilitating and safeguarding the success of freshly formed market structures in developing countries.⁹⁶

Subsequent World Development Reports (in 1992, 1993, and 1994) set out the role for the state in key aspects of development, including protecting the environment, promoting health, and providing infrastructure. The policies and systems set forth encouraged governments to act to support and supplement the market, and to conform to commercial principles in order to achieve outcomes with greater efficiency.⁹⁷ However, the clearest articulation of the neo-liberal state is laid out in the 1997 report, *The State in a Changing World*, which describes the new vision for the state in the realm of economic and social development.

Citing the experiences of the East Asian states, the 1997 World Development Report argued “development requires an *effective* state, one that plays a catalytic, *facilitating role*, encouraging and complementing the activities of private businesses and individuals.”⁹⁸ The report claimed that at the root of the crisis of development was located a more fundamental “crisis in state effectiveness” – defined in terms of states’ ability to provide the institutional environment necessary to “allow markets to flourish”.⁹⁹ The close of the Cold War and the collapse of the Soviet bloc, the fiscal crises of welfare states, and the spectre of state failure had sparked a reconsideration of the role of the state, culminating in a vision of a certain form of statehood that would act in concert with markets to deliver successful development outcomes:

It is increasingly recognized that an effective state – not a minimal one – is central to economic and social development, but *more as partner and facilitator than as director*. States should work to *complement* markets, not replace them.¹⁰⁰

No longer would the Bank’s development activities bypass the state – they now sought to directly engage the state in the process of development. However, the nature of this engagement is clearly delineated: effective statehood would involve transforming states into handmaidens of the market. States would be entrusted with maintaining the economic ‘fundamentals’ required for the functioning of the market –

⁹⁶ Craig and Porter, p. 13

⁹⁷ Cammack, p. 168-69

⁹⁸ World Bank (1997), Foreword, emphasis added

⁹⁹ Ibid. p. 1, 25

¹⁰⁰ World Bank (1997), p. 17, emphasis added

such as maintaining “liberal trade, capital markets and investment regimes”¹⁰¹ – meanwhile the scope of their activities and their ability to devise alternative courses of action would be dramatically prescribed.

This new level of engagement with states in development discourse and practice corresponds to similar trends in peace-building discourse. As previous chapters have demonstrated, the failure of the peace-building project to resolve conflicts in the global South and prevent their occurrence through development initiatives has culminated in a new emphasis on strengthening institutions and building state capacity in order to lay the foundations for liberal peace. The state-building agenda is geared towards the reconfiguration of the institutions of subject states in accordance with a liberal model of statehood. The implementation and maintenance of liberal prescriptions is enforced by pervasive systems of international regulation, which are justified by references to security threats associated with weak statehood and perpetuated through conditions of aid dependence.¹⁰² Contemporary discourses of state-building and development are fundamentally interlinked. Together they represent a unified process of neo-liberal replication in subject states, whereby the fundamental transformation of social, political, and economic structures is to be implemented and sustained through the construction of liberal state institutions. As outlined by the World Bank, states are to play a managerial role in the transformation of societies according to a liberal, market-based model.¹⁰³

By directly engaging with the state in the process of establishing the conditions for neo-liberal development, the World Bank confirms the importance of states as national gatekeepers in a global system of neo-liberal governance. Rather than representing a fundamental shift from neo-liberal orthodoxy, new arguments for state-facilitated development represent an innovation in liberal governance, whereby “the goal of market liberalization is now linked by the World Bank to *the development of effective regulatory state capacity to sustain private markets.*”¹⁰⁴ Thus the governance agenda can be understood as a “means of managing the adjustment effort”, by taking the state as the subject for the new development project.¹⁰⁵ As a part of the governance agenda, the Bank has recommended using measures to ‘lock’ states

¹⁰¹ Ibid. p. 48

¹⁰² Chandler (2006); Duffield; Hughes

¹⁰³ World Bank (1997)

¹⁰⁴ L. Panitch. (1998) ‘The State in a Changing World’: Social-Democratizing Global Capitalism? *Monthly Review* 50(5):11, p. 6, emphasis added

¹⁰⁵ Abrahamsen, p. 42

into neo-liberal reforms once a commitment to implementing the desired economic and structural reforms had been made. To this end, international agencies were to act as “a mechanism for countries to make external commitments, making it more difficult to back-track on reforms”,¹⁰⁶ and states were encouraged to enter treaties by which they would commit to “self-restricting rules, which precisely specify the content of policy and lock [states] into mechanisms that are costly to reverse.”¹⁰⁷ The report also advocated structural reforms that would shield economic decision-making from the political process, arguing that in “the technical and often sensitive area of economic management, for example, some insulation of decision-making from the pressure of political lobbies is desirable.”¹⁰⁸

The effect of these measures is to transform states into national mechanisms of neo-liberal governance, and to reorient state responsiveness in areas of economic management (and related areas of social and political organization) outward towards an external constituency comprising international lending agencies, national and non-governmental donors.¹⁰⁹ To achieve this, a strict separation between the economic and political spheres must be observed. Neo-liberal reforms and institutional structures must be shielded from democratic oversight, both during the implementation stage and in the future, in order to prevent their overthrow by future administrations. In part, this has been achieved through the mobilization of a depoliticizing discourse that presents reforms as a neutral, technical matter of implementing universal ‘best practice’ principles in order to increase state capacity and efficiency.¹¹⁰ It has also been accomplished through the narrowing of the democratic space in subject countries. Through the state-building project, key questions of economic and political policy are removed from democratic contestation; the result is a formulaic approach to democracy that emphasizes procedural aspects such as multi-party elections whilst stripping democracy of its content. Formal legal rights are prioritized over socio-economic rights, and issues such as social justice and redistribution removed from political jurisdiction.¹¹¹ The outcome of neo-liberal development and state-building practice is that economic policies are effectively dictated from afar, severely curtailing the potential for sovereign democratic decision-making in subject countries

¹⁰⁶ World Bank (1997), p. 15

¹⁰⁷ Ibid. p. 6

¹⁰⁸ Ibid. p. 116-17

¹⁰⁹ Hughes

¹¹⁰ Abrahamsen

¹¹¹ Ibid. p. 73-76

and denying local populations and elected governments the right to determine the path of national development.

Institutionalizing Neo-liberal Development: ‘Good Governance’

Whilst shifting attitudes to the state amongst international development institutions fall short of signifying a break with neo-liberalism, they do represent significant innovations in neo-liberal development discourse and a move away from the rigid orthodoxy of the Washington Consensus. Ziya Öniş and Fikret Şenses argue that this ‘Post-Washington Consensus’, as it has come to be known, represents:

a novel synthesis of the two previously dominant paradigms in development theory and policy, namely national developmentalism with its emphasis on the critical role of the state in overcoming market failures, and neoliberalism with its unquestioning belief in the benefits of the free market.¹¹²

Advocates of this approach claim that the dogmatic faith in markets that dominated earlier development efforts has been replaced by a value-neutral, pragmatic approach that seeks to make states and markets work together to achieve development outcomes. Development is thus seen to have moved beyond the dogma of the past and into a new era of partnership in which states and markets coexist to maximize efficiency and well-being.¹¹³ However, to what extent does the Post-Washington Consensus – and in particular the good governance agenda – remain guided by neo-liberal principles? What is the relationship between the state-building project and good governance initiatives? And what are the implications of the new focus on state institutions for subject states?

The good governance agenda has been instrumental in the process of neo-liberal institutionalism. The term ‘governance’ has been defined as “the management of society by the people or as the exercise of authority to manage a country’s affairs and resources.”¹¹⁴ The concept of a ‘crisis of governance’ achieved prominence

¹¹² Öniş and Şenses, p. 286

¹¹³ Ibid.

United Nations Conference on Trade and Development. (2009) The Least Developed Countries Report 2009: The State and Development Governance. New York: United Nations.

¹¹⁴ United Nations Department of Economic and Social Affairs. (2005) Poverty Reduction and Good Governance. New York: United Nations. Online at http://www.un.org/en/development/desa/policy/cdp/cdp_publications/cdpreport2004web.pdf (Accessed 13 November 2012)

following the publication by the World Bank of a report entitled ‘Sub-Saharan Africa: From Crisis to Sustainable Growth’ in 1989. The report argued that:

A root cause of weak economic performance in the past has been the failure of public institutions. Private sector initiative and market mechanisms are important, but they must go hand-in-hand with good governance – a public service that is efficient, a judicial system that is reliable, and an administration that is accountable to its public.¹¹⁵

The problematization of governance shifted responsibility for development failures away from the economic policies being implemented, and attributed blame to the states of developing countries for failing to provide adequate support for market conditions to take root.¹¹⁶

The proposed solution to such governance failures is the promotion of ‘good governance’, which in most conceptualizations requires states to demonstrate political legitimacy, a fair and efficient judicial system, bureaucratic and financial accountability, and efficient and effective public sector management, whilst ensuring freedom of information, association and participation, and cooperating with civil society institutions.¹¹⁷ The good governance agenda emphasizes transparency and accountability in governmental institutions and processes. Governments must avoid corruption and be accountable and responsive to their citizenry. The United Nations describes good governance as a framework that:

promotes equity, participation, pluralism, transparency, accountability and the rule of law, in a manner that is effective, efficient and enduring. In translating these principles into practice, we see the holding of free, fair and frequent elections, representative legislatures that make laws and provide oversight, and an independent judiciary to interpret those laws.¹¹⁸

Contemporary good governance discourse provides the framework for the model of ‘effective’ statehood envisioned by the international community, and a means for the internal transformation of state institutions according to an externally defined template. As the good governance agenda gained momentum during the 1990s, governance reforms were attached to IFI financing in developing countries,

¹¹⁵ World Bank (1992), p. xii

¹¹⁶ Abrahamsen, p. 40-41

¹¹⁷ M. Minogue. (2002) Power to the People? Good Governance and the Reshaping of the State. In *Development Theory and Practice: Critical Perspectives*, edited by Uma Kothari and Martin Minogue, pp. 117-35. Houndmills: Palgrave, p. 118-119

¹¹⁸ United Nations (n.d.)

constituting a ‘new generation of conditionality’ which Craig and Porter have termed ‘structural conditionality’, or ‘governance conditionality’.¹¹⁹ Good governance was cast as the necessary complement to the economic prescriptions of project and adjustment loans, and involving the attaching of orthodox economic conditionalities to technical assistance programmes, facilitating a more comprehensive embedding of market-friendly reforms in the social, political, and economic affairs of recipient countries.¹²⁰

The governance agenda comprises a key part of the ‘new regime of development’ that arose in response to the failure of the neo-liberal project of the 1980s.¹²¹ Graham Harrison argues that the first generation of neo-liberal reform “failed to legitimize itself within the states of the global South: it produced economic instability [and] was perceived as an external imposition”.¹²² As noted above, the adjustment era failed to embed neo-liberal ‘technologies of government’ in subject states, or to implant the market vision of social organization within the populations of these states.¹²³ Attributing this failure to poor governance posits governance reforms as the remedy to the challenge of development. Whereas externally imposed adjustment programs tended to generate considerable resistance amongst political elites in adjusting states, governance discourse conveys an emphasis on ‘ownership’ rather than conditionality – albeit a limited form of ownership that does not correspond to ‘sovereign’ control over development policy. Despite this, governance initiatives have proven more successful in socializing neo-liberal policies into subject states and societies; governance discourse is more empowering than adjustment, and has succeeded in producing more ‘complicit’ elites and rendering neo-liberal reforms more stable and less contentious.¹²⁴

Rather than rolling states back, governance-based lending is geared towards the reconstruction of states, with elected governments serving less as owners than ‘custodians’, and state sovereignty directed away from decision-making towards ‘management control’ and the implementation of “nationally specific versions of

¹¹⁹ Governance conditionality therefore constituted a ‘second generation’ of reforms, due to the failure of states to sufficiently internalize market reforms during previous rounds of adjustment. See Craig and Porter, p. 73

¹²⁰ Craig and Porter, p. 69-70

¹²¹ Harrison, p. 90-91

¹²² Ibid. p. 90-91

¹²³ Ferguson (2010), p. 173

¹²⁴ Harrison, p. 47, 58-59

neoliberal templates”.¹²⁵ This process amounts to the reconstitution of the role of government from sovereign decision-making bodies to national administrations for the implementation of a set of externally determined prescriptions. The governance agenda thus contributes to the narrowing of the democratic space in the global South, where a technocratic neo-liberal discourse – otherwise known as ‘scientific capitalism’¹²⁶ – has severely curtailed the scope for autonomous government policy.¹²⁷

Like the majority of state-building reforms, the high levels of external influence associated with governance reforms have been enabled by the use of a technocratic discourse that denies the political implications of governance interventions. Use of the term ‘good governance’ has enabled a shift in the discussion of the conduct of public affairs from the field of ‘government’ to the more general area of ‘governance’ – a term which does not necessarily bear any connection to the state, and therefore one which has been favoured by those within development circles who would seek a reduced or altered role for the state. This rhetorical shift has enabled IFIs and development agencies to push for the reform of state institutions, obscuring the political nature of their activities by evoking an apparently more ‘technical’ process.¹²⁸ Craig and Porter argue that the governance agenda is fundamentally political in nature. However, the IFIs that have driven this agenda are constrained by internal organizational prohibitions against interference in the political affairs of states. This prohibition necessitated the delineation of distinct domains for the political and the technical in government – a separation that has been reinforced by good governance discourse, which portrays governance considerations as technical concerns involving the efficient conduct of economic management and public administration.¹²⁹

By emphasizing ‘good governance’, development is presented as a neutral concept, a value-free, ontological reality that is therefore applicable in all contexts. The good governance agenda, as a form of development discourse, presents governance as a politically and culturally neutral process, emphasizing efficiency and

¹²⁵ Ibid. p. 58

¹²⁶ Ferguson (1995), p. 138

¹²⁷ Ibid. p. 59

¹²⁸ Hewitt de Alcántara, p. 105

¹²⁹ Craig and Porter, p. 71-72

sound management techniques rather than particular ideological systems.¹³⁰ Abrahamsen argues that the good governance agenda has thus enabled the World Bank and the IMF to enlarge the scope of their activities in developing countries whilst retaining a semblance of ideological neutrality. This claim to neutrality is based on the perception of economics as an empirical, value-free scientific discipline, and economic policy as a matter of objective, quantifiable data, rather than subjective, political criteria. This ‘scientific’ discourse has facilitated a host of programmes that impinge upon the economic, social, and political spheres of developing countries. However, the extent and the political nature of this interference is obfuscated by the technocratic, managerial tone of good governance discourse.¹³¹

Governance reforms have been geared towards the instilling of principles of efficiency, incentivization, and budgetary austerity in government institutions.¹³² From the 1990s, state institutions in developing countries have been provided with expatriate technical assistance in order to develop more efficient systems of resource and information management. In many cases, the public sector reforms carried out under the auspices of good governance represent fundamentally new forms of state management.¹³³ These measures represent the reproduction of neo-liberal governance within states and the reconstruction of states themselves.

The area of public service provision provides a telling example of this process. The current era of ‘inclusive’ neo-liberalism has witnessed a renewed acceptance of the role of the state in providing public services such as healthcare and education, accompanied by the elaboration of a social discourse that emphasizes social inclusion, poverty reduction, gender equity, and environmental sustainability.¹³⁴ However, the procurement of external funding for these areas is dependent upon the internalization

¹³⁰ Abrahamsen, p. 11-13

¹³¹ Ibid. p. 12

¹³² Minogue, p. 118-19

¹³³ Harrison; Abrahamsen; Minogue

¹³⁴ Craig and Porter, p. 11-12

One example of this move towards a more ‘inclusive’ neo-liberalism has been the creation of the Poverty Reduction Strategy Programme (PRSP) framework by the World Bank and IMF in 1999. PRSPs allocate greater priority and resources to social sectors, emphasizing issues such as health, education, poverty, gender, and HIV/AIDS and channeling increased spending towards these areas. However, whilst this increased social focus certainly represents an improvement on the structural adjustment template, PRSPs maintain “an insistence on the neoliberal fundamentals of economic management” (Harrison, p. 57) and render funding allocation conditional on the internalization of these principles within government ministries. PRSPs and other more inclusive forms of neo-liberal codification draw on the same language as governance discourse. It does not fall within the scope of this thesis to examine such initiatives here. For further discussion of the implications of PRSPs and discourses of ownership, see Harrison, p. 57-58.

of neo-liberal principles of management and efficiency within state institutions and government ministries.¹³⁵ Furthermore, institutional arrangements for the discharge of these functions must be disciplined and brought into line with neo-liberal principles.

The 2004 Report *Making Services Work for Poor People* argues that there is a need for institutional improvements in order to assist governments to discharge their public responsibilities (such as the provision of basic health and education) more effectively. “Making services work”, it claims, “requires changing the institutional relationships among key actors.”¹³⁶ The report identifies economic growth, increased public spending, and ‘technical interventions’ as essential requirements for improved outcomes, but insists that ‘sustainable improvements’ cannot be achieved without “reforming the institutions that produce inefficiencies”.¹³⁷ Key problems of accountability are to be addressed by constructing the relationship between the government and the public as a provider-client transaction. This is to be achieved by introducing incentivization and penalization, carrying out technological improvements to allow greater access to information, increasing the participation of the poor in the service delivery process, and, in many cases, encouraging decentralization.¹³⁸

The method for achieving improved service provision echoes standard governance prescriptions. Reforms must be ‘embedded’ within the public sector, with specific sectoral reforms linked to deeper, ongoing reforms in public administration and budget management. Rigorous evaluation by international agencies is recommended to ensure compliance and effectiveness.¹³⁹ The technocratic, non-democratic nature of such reforms and the mechanisms of regulatory discipline that accompany them are defining features of the contemporary regime of global economic governance. The result is the transferal and replication of a disciplinary form of neo-liberalism within states of the global South, which functions to limit the potential for autonomous decision-making and reorients states towards an external constituency in key areas of social and economic policy.¹⁴⁰

¹³⁵ Harrison, p. 58

¹³⁶ World Bank. (2003) *World Development Report 2004: Making Services Work for Poor People*. In *World Development Report*. Washington, D.C.: World Bank, p. 32

¹³⁷ Ibid. p. 32

¹³⁸ Ibid. p. 6-10

¹³⁹ Ibid. p. 17

¹⁴⁰ S. Gill. (1998) New Constitutionalism, Democratisation and Global Political Economy. *Pacifica Review: Peace, Security & Global Change* 10(12):23-38.
Chandler (2006)

Service delivery represents only one of many areas connected to the broader project of public sector reform. This demonstrates the far-reaching nature of the institutional reform envisioned by the good governance project. The reform of public management is intended as a tool for the implementation of further reforms throughout all areas of state-society relations.¹⁴¹ The application of neo-liberal principles to key sectors of the economy including healthcare, education, justice, agriculture, and basic infrastructural services (such as water and power), is achieved in part through the reconstitution of public institutions according to market disciplines, under whose auspices the furthering of the liberal vision of market and society is to be achieved.

The reformulation of state practices associated with the good governance agenda is geared towards the creation of institutional environments deemed necessary for the realization of the liberal vision of society. Governance initiatives reconstruct states through the transplantation of a market ethos and provider-client mentality within public institutions. Sovereign governance is thus replaced by the managerial role prescribed by good governance discourse.¹⁴² These re-engineered states carry out a key function within the architecture of global economic governance, serving to transmit prescriptions from the core of the global economy to societies in the global South.

State-building and Development

As a central component of the liberal peace-building framework, state-building is based on the same constellation of liberal market values that frame contemporary development practice. Together, state-building and neo-liberal development comprise interlocking mechanisms for the advancement of the liberal peace in the global South. According to this vision, Lund argues:

market-oriented economic reform, democratization, civil society building, human rights, rule of law, and good governance are assumed to be the most promising approach both to preventing intra-state and inter-state conflicts as well as to developing poor societies and organizing nations. ... Every component of liberalism, whether economic reform or war crimes tribunals,

¹⁴¹ Harrison

¹⁴² Ibid. p. 58-59; Abrahamsen

now has a theory of peace and long-term conflict prevention lying behind it.¹⁴³

With this liberal paradigm now dominating contemporary development discourse, neo-liberal approaches to economic and social policy form the basis for the transformation of societies in the global South. The state-building project facilitates this transformation through the embedding of neo-liberal principles within states themselves.

The problematization of statehood in countries of the global South has provided the key point of convergence for the development and state-building projects. With the problematization of ‘poor governance’ as the source of previous development failures, efforts to reconstruct states in accordance with a liberal vision of ‘good governance’ have become a focal point of development policy. This discursive shift has been paralleled by similar intellectual currents in liberal peace-building circles, where ‘weak statehood’ has been identified as a primary factor contributing to the outbreak of conflict. Prior to this, the correlation between underdevelopment and conflict had already driven a strategic convergence of development and peace-building concerns.¹⁴⁴ The formation of a state-building agenda has reinforced this association, with efforts to bolster state capacities and reform public institutions facilitating the embedding of neo-liberal relations within states themselves.¹⁴⁵

Good governance initiatives are a central mechanism of liberal replication in subject states within the overlapping domains of neo-liberal state-building and development. These governance initiatives – ostensibly involving the implementation of a series of technical reforms in order to subject public institutions to best practice principles of efficiency, incentivization, transparency, and accountability – exert a tremendous influence on key questions of economic and social policy in the global South. By identifying certain aspects of economic and social policy as ‘technical’ governance concerns, governance discourse has facilitated a separation of “the economic from the political” that places certain policy matters beyond the influence

¹⁴³ Lund, p. 15

¹⁴⁴ Duffield

¹⁴⁵ While neo-liberal state-building initiatives are now underway in most countries in the global South, the ‘grafting’ of the liberal model onto societies is most conspicuous in post-conflict peace operations. See Lund, p. 15

of elected governments.¹⁴⁶ Recourse to governance discourse has justified the implementation of neo-liberal reforms by external actors and ensured their maintenance in perpetuity by the use of legal guarantees and sanctions that serve to 'lock in' policy commitments.¹⁴⁷ This process has been carried out through intrusive external interventions, conducted beyond the remit of domestic democratic contention. The state-building agenda has enabled international actors unprecedented influence over the internal affairs of subject states, contributing to the construction of a new regime of global economic governance that exposes states to heightened levels of surveillance and neo-liberal discipline.¹⁴⁸

The reconstruction of statehood according to neo-liberal principles and the subordination of states to external regulation constitute a dramatic restriction of sovereign decision-making capacity. Systems of external control over internal policy associated with governance reforms are highly undemocratic, serving to distance decision-making from mechanisms of political accountability. Key questions of social and economic policy are removed from domestic political contention, resulting in the narrowing of the domestic democratic sphere and serving to insulate neo-liberal reforms from the 'threat' of mass democracy.¹⁴⁹ Conditions of aid dependence reinforce the workings of disciplinary regulation; post-conflict states in particular are highly dependent on international institutions and donors, and thus face a dilemma between external and internal standards of legitimacy. Where the requirements of a state's external and internal constituencies are in conflict, governments must submit to the requirements of international actors to ensure continued access to resources.¹⁵⁰ This erosion of governmental authority prevents states from embodying a collective expression of society, undermining social cohesion and political legitimacy and sabotaging the social contract upon which 'modern' democracy is purported to rest.¹⁵¹

These twin processes of neo-liberal development and state-building result in the construction of 'phantom states', which possess the appearance of legal sovereignty without the substance of political sovereignty.¹⁵² The embedding of such states within international institutions repositions the state from sovereign

¹⁴⁶ Gill, p. 25

¹⁴⁷ Ibid. p. 25

¹⁴⁸ Ibid. p. 27

¹⁴⁹ Ibid. p. 27; Chandler (2006)

¹⁵⁰ Hughes; Tadjbakhsh

¹⁵¹ Chandler (2006), p. 43

¹⁵² Ibid. p. 43

representative of national interests into a mediating link in the architecture of global governance. This re-engineered form of statehood requires states to act as domestic facilitators of neo-liberal governance. The liberal state-building vision is predicated on the creation of strong yet limited states: states capable of providing an enabling environment for markets to flourish, whilst themselves subject to market discipline.¹⁵³

The expansion of global economic governance – or ‘disciplinary neo-liberalism’ – has wrought deep social and economic dislocations in subject societies, and has thus depended upon a strategy of “cooptation of opposition” in order to survive in a formally democracy world order.¹⁵⁴ The construction of markets in non-market societies is a highly disruptive process that necessitates the subordination of all areas of society to market disciplines.¹⁵⁵ To succeed, this process must be shielded from the repercussions of the social dislocations it creates, for the imposition of market structures creates deep social and economic upheavals, precipitating attempts by local populations to exert democratic control over capital to avoid social disintegration.¹⁵⁶ As has already been suggested, the depoliticization of neo-liberal reform has provided a means of insulating unpopular economic policies from domestic political interference. Consequently, the exercise of mass democracy is restricted to “safely channelled areas” whilst retaining the trappings of democratic participation.¹⁵⁷

The ‘good governance’ regime in particular arose out of a need to contain the threat of democracy for neo-liberal development, and has served as a mechanism to shield the exercise of neo-liberal reforms from widespread stirrings of popular opposition.¹⁵⁸ As has already been demonstrated, ‘governance’ does not afford to populations a right self-determination over the process of development. Rather, governance discourse promotes a controlled and technocratic approach to democracy that contains democratic aspirations within a highly prescribed social and economic framework.¹⁵⁹ This brand of ‘low intensity democracy’ is calculated to manage conflicts without threatening the neo-liberal regime or the power structures it

¹⁵³ Gill, p. 27

¹⁵⁴ Ibid. p. 27

¹⁵⁵ Polanyi

¹⁵⁶ In the past, this process – known as the ‘double movement’ in Polanyian terms – resulted in the creation of the welfare state and centrally-planned systems of economic development. See Gill, p. 26

¹⁵⁷ Gill, p. 27

¹⁵⁸ Schmitz, p. 73-74

¹⁵⁹ Ibid. p. 73-74

represents.¹⁶⁰ Such is the form of democracy being promoted in countries of the global South as a result of neo-liberal state-building initiatives – a highly circumscribed form of democracy that emphasizes formal democratic processes over matters of social and economic substance.¹⁶¹

Duffield argues that the promotion of this shallow vision of democracy in developing and post-conflict countries constitutes a project of global ‘riot control’ and ‘global poor relief’ through which the ‘dysfunctional’ societies of the South are to be transformed into ‘cooperative’ and ‘stable’ entities within a global liberal framework.¹⁶² Within this liberal order, development is construed as a “process of self-management within a liberal market environment”.¹⁶³ State-building can thus be understood as a means of ensuring the stability of the international neo-liberal system, by recruiting states to act as agents and managers of the liberal peace at the national level.

As has been suggested in previous chapters, the task of liberal social transformation is afforded heightened urgency in post-conflict situations due to humanitarian and strategic considerations. However, such environments are also widely held to offer greater *opportunity* for reform, where the destruction of institutions and social relationships as a result of conflict is held to leave “an institutions and values vacuum.”¹⁶⁴ In this view, post-conflict societies offer a ‘blank slate’ upon which new market structures can be written.¹⁶⁵ State-building after conflict thus appears to present a unique opportunity for good governance initiatives, with extreme social devastation and high levels of dependence on the international community giving unprecedented scope for the expansion of neo-liberal governance.

Conclusion

In light of neo-liberalism’s current hegemonic position in international development, it can be tempting to speak of the process of international liberalization in such a way as to ascribe neo-liberalism itself with agency. Whilst neo-liberal policy and practice has certainly shaped the international system to an extraordinary degree

¹⁶⁰ Ibid. p. 60-61

¹⁶¹ Such formulations of democracy have been referred to as ‘minimal’ or ‘procedural’ democracy. See Abrahamsen; Hughes

¹⁶² Duffield, p. 9, 11

¹⁶³ Ibid. p. 34

¹⁶⁴ Lund, p. 15

¹⁶⁵ Ibid. p. 15

in recent decades, this has been neither an inevitable nor an uncontested process.¹⁶⁶ Harrison argues that the rise of global neo-liberalism was a highly uncertain and contested process that took place “through a series of interrelated debates and policy changes in many states and international organisations that enables advocates of economic liberalisation to shape the direction of economic orthodoxy towards the practices and premises of neoliberalism.”¹⁶⁷ However, this nebulous process has evolved into what can now be described as an “institutional and discursive neoliberal project”¹⁶⁸, a process of replication and social transformation backed up by a global ‘neoliberal architecture’ of overlapping international norms, legal regulations, financial structures, trade regimes, security complexes, donor relationships, and institutional frameworks that serve to constrain the potential for autonomous action or alternative arrangements.¹⁶⁹

In the decades since the dissolution of official Keynesianism, neo-liberal economic reform has been globalized to the extent that market forms of economic organization now represent a ‘common sense’ that pervades virtually all international organizations and the majority of states. The dominance of neo-liberal ideas is evident in the ‘narrowing’ of the discourse of international development. No longer is the general desirability of market forms of organization under question; the contemporary challenge for international development is to ‘make the market work’¹⁷⁰ for the poor.¹⁷¹

Neo-liberal hegemony was consolidated during the 1990s, with the embedding of an ideological consensus amongst key actors and organizations associated with international development. Following a decade of structural adjustment during which the role of the state in adjusting countries was drastically reduced, state effectiveness came to be seen as the fundamental determinant of development success, justifying a range of disciplinary measures geared towards the construction of ‘capable states’ – states capable of creating and maintaining an enabling environment in which the prescriptions of the neo-liberal development model could flourish.¹⁷² The establishment of such states would thus form a primary preoccupation of development

¹⁶⁶ Harrison, p. 78

¹⁶⁷ Ibid. p. 80

¹⁶⁸ Ibid. p. 93

¹⁶⁹ Duffield; Gill; Schmitz; Harrison, p. 94

¹⁷⁰ World Bank (2003)

¹⁷¹ Harrison, p. 78-79

¹⁷² Craig and Porter, p. 13, 63, 66, 68

policy throughout the 1990s and into the twenty-first century. This transformative project is central to the state-building agenda, linking governance considerations to the post-conflict imperative to foster peaceful national development.

In many ways, the ongoing dominance of neo-liberal practice (despite its failure to achieve stable economic growth or social welfare) can be attributed to the absence of an alternative set of practices and ideas to rival it. The collapse of international socialism as an influential alternative system has allowed for the ‘endless assertion’ of neo-liberalism, which, despite repeated failures and misadventures, continues to evolve and recapitulate.¹⁷³ The overlapping arenas of good governance and state-building can therefore be understood as the most recent iterations of neo-liberal development practice, itself part of a system of global neo-liberalism that incorporates both developed and developing countries into interrelated – but deeply uneven – processes of accumulation and governance.

The vision of liberal peace encompasses a particular framework of governance, development, and democracy, predicated upon a market approach to economic, social, and political relations. As a central element of liberal peace-building policy, the state-building project is geared towards the implementation of this vision in countries held to present a heightened risk of conflict. In practice, neo-liberal development and state-building initiatives comprise a mutually reinforcing front for the advancement of global economic development in countries of the South. This has been achieved through the reconstitution of states as facilitators and partners in the process of neo-liberal development.

¹⁷³ Harrison, p. 81

Chapter Four: CONFLICT AND STATE-BUILDING IN TIMOR-LESTE

Introduction: Historical Background

East Timor occupies the eastern half of the island of Timor, located in the Indonesian archipelago in the southern Pacific Ocean to the north of Australia. With a land area of approximately 15,000 square kilometres, East Timor shares a border with the Indonesian province of West Timor, which passed from Dutch colonial control to Indonesia in 1949. The territory of East Timor was colonized by the Portuguese, who first reached the island in the early sixteenth century – yet did not establish a colonial administration until 1769, when the Portuguese settlement was relocated to Dili.

Throughout much of their administration, the Portuguese made little effort to consolidate their authority or develop the territory, maintaining a relatively unobtrusive presence until the late nineteenth or early twentieth century.¹ Chronically starved of funds and unable to support a sizeable official presence, Portuguese reach was minimal outside Dili, and the administration relied on systems of informal alliances with local chiefs or kings (known as *liurai*) to exercise authority. Direct colonial authority only extended to the sub-district level, beyond which the colonial administration depended on traditional authorities to implement colonial policies at the village level, carrying out tasks such as tax collection, labour supervision, and communicating with other village chiefs.² The Portuguese's reliance on indirect rule meant that a large proportion of Timorese traditional authority structures remained intact. Rod Nixon argues that this preservation of Timorese socio-political institutions could prove conducive to stability in the state-building context.³ However, ongoing state-building activities in what is now known as Timor-Leste have yet to incorporate local authority structures into formal governance institutions in any meaningful way.

Colonial authorities did not institute any significant industrial development or social modernization programmes in East Timor, with the result that Portuguese

¹ G. Robinson. (2010) *If You Leave Us Here, We Will Die': How Genocide Was Stopped in East Timor*. Princeton: Princeton University Press, p. 23

Nixon, p. 25-26

² Nixon, p. 26, 28-29, 34-35

Robinson, p. 23

³ Nixon, p. 31, 46, 48

Timor has been described as “the most economically backward colony in Southeast Asia”.⁴ Little modernization of cultivation practices took place under Portuguese rule. Only a small proportion of arable land was appropriated by the Portuguese and the majority of land remained under customary ownership, with East Timor remaining a predominantly subsistence economy upon the Portuguese withdrawal in the 1970s.⁵

The Portuguese ceded control of East Timor in 1975, following a bloodless coup in Portugal that ushered in a new regime intent on relinquishing the country’s colonial territories. For the first time, the receding Portuguese administration permitted the formation of new political parties, precipitating a ‘political awakening’ among the country’s educated urban elite as political involvement expanded beyond previous, limited membership in clandestine political organizations.⁶ The Timorese Democratic Union (UDT), Timorese Social Democrat Association (ASDT – later succeeded by the Revolutionary Front for an Independent East Timor, commonly known as FRETILIN), and Timorese Popular Democratic Association (APODETI) emerged as the most prominent political parties in this period, and held divergent positions over the independence process.⁷ Political tensions culminated in the UDT and APODETI joining forces against FRETILIN, and escalated into armed violence following a UDT coup attempt in August 1975, claiming an estimated 1,500 to 3,000 lives. By early September, FRETILIN had taken control of Dili and consolidated its position throughout the country. FRETILIN served as de facto governing authority from September to December, seeking (unsuccessfully) to conduct decolonization

⁴ J. Dunn. (1996) *Timor: A People Betrayed*. Second ed. ABC Books: Sydney, p. 16, as quoted in Nixon, p. 31

⁵ Nixon, p. 40. According to Nixon, only 3 per cent of land – or approximately 47,000 hectares – has ever been alienated from customary ownership in East Timor.

⁶ Robinson, p. 29-33; Nixon, p. 51

⁷ Robinson, p. 30-35

The UDT favoured Timorese independence following a transitional period under Portuguese guardianship. The party’s leadership consisted largely of members of wealthy landowning families, high-ranking employees of the colonial civil service, and migrants and Timorese chiefs who had benefitted under Portuguese rule. The ASDT was predominantly composed of younger, educated Timorese and drew its initial support from teachers, students, and low-ranking civil servants, but subsequently expanded its support base in the countryside to include a majority of the country’s rural population. Heavily influenced by the left movement in Portugal and leftist liberation movements in Africa, the ASDT advocated immediate independence for East Timor. APODETI was the smallest of the three major political parties by a significant margin, and called for East Timor’s incorporation as a province of neighbouring Indonesia. The party leadership was drawn from the landowning elite and other members of the local social elite, and the organization received political and financial support from Indonesia. Tensions between ASDT/FRETILIN and the UDT grew, resulting in collaboration between the UDT and APODETI, which, with covert Indonesian support, employed increasingly violent means in pursuit of integration with Indonesia. See Robinson, p. 30-35

talks with the Portuguese and attempting to garner international support by unilaterally declaring independence on 28 November 1975.⁸

The Indonesian invasion of East Timor began on December 7 with a combined land, sea, and air campaign, marking the onset of a brutal 24-year occupation that would claim the lives of approximately 180,000 people – over a quarter of the population.⁹ East Timor was officially incorporated into Indonesia on 17 July 1976, and the Indonesian military set about consolidating administrative control over the new province and suppressing the Timorese armed resistance. FRETILIN members quickly established a national resistance network based on traditional district and village-level administrative structures, with a civilian clandestine movement providing support for military activities. The National Council of Revolutionary Resistance (CRRN) was established in 1981 to lead the military and political wings of the resistance movement, and – under the leadership of Xanana Gusmão – a policy of reconciliation was pursued between the opposing political parties of 1974 and 1975, in particular FRETILIN and UDT.¹⁰ This development was linked to a broader depoliticization of the resistance movement and the development of a unified East Timorese national identity,¹¹ forming a nationalist united front that became increasingly adept at attracting international attention to the Timorese cause.¹²

The Indonesians made considerable investments in infrastructural development during the occupation years, laying thousands of kilometres of roads, expanding the public administration, and constructing and staffing schools and hospitals. Despite this, little progress in terms of social and economic modernization was made during the Indonesian period. In 1997 East Timor remained Indonesia's poorest province: development indicators were consistently low in comparison to

⁸ Nixon, p. 52-68; Robinson, p. 33

⁹ D. Kingsbury and M. Leach. (2007) *East Timor: Beyond Independence*. Clayton, Vic: Monash University Press, p. 1

¹⁰ The CRRN was replaced by the CNRM, and finally the CNRT in 1988.

¹¹ Indiscriminate use of violence by the Indonesian military against the Timorese population reinforced the development of a new sense of equality and national unity, despite the intricate system of traditional social hierarchies and cleavages to which the Timorese population was accustomed. See Hughes, p. 38-39

¹² Hughes, p. 35-36; Robinson, p. 79; Nixon, p. 80-81

Throughout the 1980s and early 1990s, the East Timorese independence struggle achieved mounting prominence on the international stage. The resistance was represented externally by influential figures such as José Ramos-Horta, whose diplomatic activities raised greater awareness and sympathy for the Timorese plight. The Santa Cruz Massacre of November 1991 – in which hundreds of students in a peaceful protest were killed by Indonesian security forces – mobilized considerable external support for Timorese independence, and student activists succeeded in maintaining international attention throughout the decade. See Nixon, p. 76, 78, 80-83

other Indonesian provinces, and the economy remaining overwhelmingly subsistence-based.¹³ Broad education programmes during this time generated a growing proportion of educated East Timorese youth with few prospects of employment or further education, a development which proved critical to the Timorese independence movement, as student activism was instrumental in garnering international attention to the country's plight.¹⁴ Many of the infrastructural developments introduced during this period would later be reversed, with post-referendum violence and scorched-earth tactics destroying an estimated 70 per cent of the country's infrastructure.¹⁵

Political developments in Indonesia set in motion the train of events that ultimately resulted in East Timorese independence. Indonesia's long-standing president Suharto resigned in 1998 amid deep social unrest associated with the Asian financial crisis. His successor – President B. J. Habibie – agreed to hold a referendum to determine the future of East Timor, offering a choice between political autonomy within Indonesia or independence.¹⁶ The referendum was carried out under UN auspices on August 30, in which an overwhelming majority (78.5 per cent) voted for independence despite intimidation and violence by pro-Indonesian militias. Widespread violence broke out immediately after the results were released, as the Indonesian military and pro-Indonesian militias attacked independence supporters, forcibly displaced much of Dili's population, and systematically burned or destroyed much of the country's physical infrastructure. The violence claimed the lives of approximately 1,400 civilians and displaced virtually the entire population, with over 250,000 refugees driven into West Timor province, and a further 100,000-200,000 Timorese internally displaced.¹⁷

The UN Security Council responded quickly to the violence, authorizing a Chapter VII peace enforcement mission mandated to use all necessary means to restore security and facilitate humanitarian assistance. INTERFET (International Force in East Timor) was deployed on 20 September 1999, and assumed de facto

¹³ M. G. Smith. (2003) *Peacekeeping in East Timor: The Path to Independence*. Boulder: Lynne Rienner Publishers, p. 38

Nixon, p. 86-87, 97-98, 106-107

¹⁴ Nixon, p. 87

¹⁵ J. D. Rae. (2009) *Peacebuilding and Transitional Justice in East Timor*. Boulder: Lynne Rienner Publishers, p. 53

Nixon, p. 110

¹⁶ The vote for independence was de facto, with the referendum merely providing the option to vote for or against autonomy within Indonesia.

¹⁷ Robinson, p. 92, 118-125, 158, 161; Rae, p. 53; Smith (2003), p. 44

governance functions until an official transitional authority could be established. UNTAET was established in October 1999 as a transitional administration tasked with preparing the territory for full independence in partnership with the East Timorese people.¹⁸ UNTAET was granted unprecedented authority over governance functions during this period, in which it sought to establish viable structures for independent self-governance through intensive state-building activities.¹⁹ The following sections will examine the ongoing process of state-building in East Timor (now the independent nation of Timor-Leste), and evaluate their impact on the political processes and democratic prospects of the young nation.

UNTAET: Building the (Insulated) State in East Timor

The UN Transitional Administration for East Timor (UNTAET) was established on 25 October 1999 by UN Security Council Resolution 1272, which conferred “overall responsibility for the administration of East Timor” on the new mission and authorized it “to exercise all legislative and executive authority, including the administration of justice” until the territory achieved formal independence.²⁰ UNTAET was also tasked with providing security and maintaining law and order; establishing an effective administration; assisting in the development of civil and social services; ensuring the coordination and delivery of humanitarian assistance, rehabilitation, and development assistance; carrying out capacity-building for self-government; and assisting in the establishment of conditions for sustainable development.²¹ The mission structure included an armed security force, a governance and public administration bureau comprising a large civilian policing contingent, and a humanitarian and emergency rehabilitation component.²²

Commentators have argued that the conditions that UNTAET met upon its deployment in November were in many ways extremely favourable, the prospects for success much more promising than those generally experienced by peace missions.²³ Indonesian forces had by this time withdrawn from East Timor (although some pro-

¹⁸ Smith (2003), p. 45-46, 59

¹⁹ Beauvais

²⁰ United Nations Security Council. (1999) Resolution 1272: Adopted by the Security Council at its 4057th Meeting on 25 October 1999. UN Document S/RES/1272. Online at <http://www.un.org/en/peacekeeping/missions/past/etimor/docs/9931277E.htm> (Accessed 13 December 2014)

²¹ Ibid.

²² M. Butler. (2012) Ten Years After: (Re) Assessing Neo-Trusteeship and UN State-Building in Timor-Leste. *International Studies Perspectives* 13(1):85-104, p. 91

²³ Chopra (2000), p. 28

Indonesian elements remained), clearing the way for the rapid establishment of internal and external security. The local population welcomed the presence of the UN, and the National Council of Timorese Resistance (CNRT) – as orchestrator of the resistance movement and pro-independence representative body – constituted a single local body with which to negotiate. The reconstruction effort had been provided with substantial funding by donor governments, and the World Bank and IMF were closely involved with the mission, bringing various development agencies together at an early stage. Presiding over the peace-building effort was a mission endowed with unparalleled administrative and legal authority to govern the territory, with the strong support of international public opinion and political will.²⁴

The degree of authority and the breadth of responsibilities bequeathed on the mission were unprecedented in the history of UN peace operations, with the UN for the first time assuming sovereign control over a territory in preparation for self-determination. Authorized “to enact new laws, promulgate regulations and amend, suspend or repeal existing ones”, the Secretary-General’s Special Representative (SRSG) – also the Transitional Administrator of East Timor – wielded virtually autocratic power within the territory.²⁵ Not only was the UN responsible for public administration and the various functions associated with that role, it was also responsible for establishing state institutions and building up local capacity for the exercise of autonomous statehood. The UN administration in East Timor was thus taken as a test case for a ‘trusteeship’ model of state-building missions, with the territory serving as a “laboratory for an experiment of governance”.²⁶

In effect, UNTAET’s mandate required the organization to establish in East Timor an administrative system reaching from the central to the village level, one that would ultimately be staffed by local civil servants recruited and trained in the tasks of public administration. UNTAET was required to establish political mechanisms such as an electoral process, facilitate the emergence of a political system, and conduct national elections. As the acting sovereign authority, UNTAET was also responsible for establishing financial and tax systems, drafting legislation, determining foreign policy, establishing border security, carrying out revenue collection, developing and

²⁴ Ibid. p. 28-29

²⁵ United Nations Security Council. (2001) Security Council Establishes UN Transitional Administration in East Timor for Initial Period until 31 January 2001. Press Release SC/6745. Online at <<http://www.un.org/press/en/1999/19991025.sc6745.doc.html>> (Accessed 26 January 2013)

²⁶ Gorjão, p. 314

training new police and defense forces, and training professionals such as teachers, health workers, lawyers, prosecutors, court officials, and prison officers to staff the country's new institutions.²⁷

The Failure of 'Timorisation'

As UNTAET's emergency humanitarian role and security tasks became less pressing, the lack of East Timorese participation in the transitional administration became a cause of increasing resentment.²⁸ The UN-orchestrated state-building project had arrived in East Timor assuming the existence of a 'state-centric *terra nullius*', carrying out its institution-building activities accordingly. However, the situation in East Timor was far from a political vacuum: a broad-based political body already existed which had successfully mobilized popular support and orchestrated resistance activities for the previous two decades.²⁹ The CNRT had acted as an umbrella organization for resistance activities and a shadow governing body during the Indonesian occupation, and still enjoyed widespread popular legitimacy. However, reflecting the impartiality ethic of traditional peacekeeping missions and a desire not to antagonize Indonesia and pro-Indonesian elements remaining within East Timor, UNTAET held the CNRT at arms length, effectively alienating the one body equipped to serve as a link between the Dili-based UN administration and the local population.³⁰

Chopra attributes this exclusion of local representatives to a desire to avoid the problems of previous missions with fragmented local authorities – in particular the experiences of Somalia and Afghanistan. A second factor behind the unwillingness to include Timorese in any meaningful way in the transitional administration stemmed from the attitudes of international officials themselves, who exhibited 'colonial-style behaviour' and a sense of superiority towards the local people. Chopra argues that the unprecedented powers of the UN in East Timor had a corrupting effect on international staff, many of whom viewed the Timorese as unreliable, unskilled, and therefore incapable of self-government.³¹

²⁷ S. Downie. (2007) UNTAET: State-Building and Peace-Building. In *East Timor: Beyond Independence*, edited by Damien Kingsbury and Michael Leach, pp. 29-42. Clayton: Monash University Press, p. 30

²⁸ Gorjão, p. 318-19

²⁹ J. Chopra. (2002) Building State Failure in East Timor. *Development and Change*. 33(5):979-1000, p. 981, 991

³⁰ Butler, p. 92

³¹ Chopra (2002), p. 981

These attitudes contributed to a growing gap between the official authority of the UN, and the *de facto* authority of the CNRT, which still effectively controlled East Timor's towns and rural areas.³² Communication with the CNRT had been minimal during UNTAET's planning stages, setting the tone for the patterns of inadequate consultation that followed.³³ This failure to engage politically with the CNRT undermined the mission's legitimacy, leading the organization to establish its own parallel structures and become increasingly vociferous in its critique of UNTAET and demands for broader Timorese participation.³⁴

In late November 1999, a National Consultative Council (NCC) – later replaced by the expanded but equally constrained National Council (NC) – was established in an attempt to increase Timorese participation in the transitional process. The Council was required to consult with the East Timorese population and was authorized to submit recommendations on UNTAET regulations, yet remained an advisory body only and lacked legislative powers. Members of the national councils (and smaller district councils) were appointed rather than elected, and the SRSR reserved the right to approve or discard Council recommendations.³⁵ Although intended as the “primary mechanism through which the representatives of the people of East Timor [should] actively participate in the decision making process”³⁶, the councils were neither autonomous nor sufficiently representative, and fell short of Timorese expectations.³⁷

³² Chopra (2000), p. 32

³³ Chopra (2002), p. 990

³⁴ Richmond and Franks, p. 192

³⁵ Nixon, p. 119; Chopra (2002), p. 991-92

³⁶ United Nations. (1999) UNTAET Regulation 2/1999. UNTAET/REG/1999/2, as quoted in Gorjão p. 317-18

³⁷ Other attempts to establish genuine local representative bodies were repeatedly stymied by UNTAET officials. A Community Empowerment Project (CEP) sponsored by the World Bank and Asian Development Bank which sought to establish elected village and sub-district councils, comprising equal numbers of men and women, was strongly opposed by UNTAET, who obstructed the proposal at every turn until they were ultimately forced to accept it. The CEP would allocate grants to sub-districts, which would then determine local development priorities based on submissions from the village councils. This experimental project – although undoubtedly difficult to implement – would facilitate local democracy and self-determination over the reconstruction process. However, Chopra argues that efforts at decentralization clashed with UNTAET's highly centralized structure, whose ongoing opposition to the scheme effectively sabotaged what could have constituted a crucial link between the transitional administration and the majority of the population living in the districts. The failure to establish local government structures may have contributed directly to the overwhelming victory of FRETILIN in the Constituent Assembly elections that took place in August 2001 and the concentration of power manifested by its leader, Mari Alkatiri. See Chopra (2002), p. 992-994; Chopra (2000), p. 30-31

In an effort to facilitate greater direct Timorese participation, in July 2000 UNTAET replaced its Office of Governance and Public Administration with the East Timor Transitional Administration (ETTA), to be administered by a Transitional Cabinet – distinct from the NC – with a greater role in public administration. The Cabinet was given portfolios in the areas of internal administration, infrastructure, economic affairs, social affairs, political affairs, justice, finance, and police and emergency services, and granted the new ministers responsibility for formulating policies and issuing recommendations to the NC. This measure accorded more closely with Timorese expectations, allowing local leaders a significant role in the transitional administration. However, the Cabinet was half comprised of UNTAET officials, and remained subordinate to the SRSG, ensuring that UNTAET retained exclusive political power. In late 2000, the East Timorese members of the Cabinet threatened to resign if UNTAET failed to transfer greater authority to them. Timorese members of the NC and Cabinet wielded little influence and few resources, resulting in a string of resignations and fuelling demands for an accelerated transfer of power.³⁸

Despite this increasing dissatisfaction with the ETTA, Michael Smith argues that the establishment of ETTA represented a significant deviation from the transitional process as it was originally conceived, whereby the Timorisation of political posts would not take place until near to the time of national elections (while the Timorisation of administrative functions would take place at an earlier date). The formation of ETTA began this process of political transition earlier, informed by the belief that effective preparation for self-government cannot take place without providing national leaders with direct governmental experience.³⁹ However, the incorporation of Timorese leaders into the transitional process proved too little, too late. The failure to ensure meaningful participation from an early stage severely undermined the political legitimacy of the UN mission. This lack of popular support, together with UNTAET's poor progress in the areas of reconstruction and economic development and mounting resentment at the glaring inequalities between international officials and the living conditions of the local population, led East Timorese leaders to seek independence as early as possible.⁴⁰

³⁸ Nixon, p. 119-120; Gorjão, p. 320

³⁹ Smith (2003), p. 65

⁴⁰ Gorjão, p. 321

In February 2002, the NC issued recommendations calling for the establishment of a Constituent Assembly to draft a constitution and, upon independence, to act as the country's first parliament. UNTAET accepted this proposal and began preparing for Constituent Assembly elections to be held on 30 August 2001. From this point on, UNTAET shifted its focus from its transitional governance mandate to crafting a feasible exit strategy and providing the "minimal requirements necessary to allow for sovereignty transfer."⁴¹

The Constituent Assembly elections were a resounding victory for FRETILIN, which – in coalition with the ASDT party – comprised an overwhelming majority in the Assembly and was thus able to draft the new constitution without consultation with other parties. The document was drafted with minimal public consultation and adopted without a referendum, allowing FRETILIN – with UN approval – free reign in determining the country's future governing arrangements.⁴² The new FRETILIN government effectively controlled parliament, but – in anticipation of being unable to control the presidency – adopted a bi-centric governance system that awarded broad executive and legislative powers to the prime minister and cabinet ministers while limiting the president to a largely symbolic role.⁴³ The UN, desperate for the appearance of success, was able to leave the country in 2002 with its own elected legislature. However, FRETILIN's authoritarian tendencies and the deep antagonisms between the ruling party and the president cast a long shadow over the country's prospects for political stability. Commentators predicted a difficult relationship between Xanana Gusmão – elected president in April 2002 – and FRETILIN Prime Minister Mari Alkatiri, who had strong personal and political differences and divergent views on the future of the country. Their predictions proved correct, with tensions between the two undermining the unity of the new government and contributing to the outbreak of conflict in 2006.⁴⁴

⁴¹ Butler, p. 94

⁴² Ibid. p. 94; Gorjão, p. 322

⁴³ Anticipating that it would not be able to control the presidency, FRETILIN adopted a constitution similar to that of Portugal, which afforded executive power to the Prime Minister rather than the President.⁴³ Xanana Gusmão was elected president with an overwhelming majority, assuming a post that was largely symbolic, yet afforded him the power to temporarily veto legislation and put it forward for judicial review, and – under certain circumstances – to initiate a referendum, dissolve parliament and dismiss the government. Crucially, the constitution also conferred on the presidency command over the defence force. See Gorjão, p. 322; Nixon, p. 130

⁴⁴ Gorjão, p. 322-23, 326; Nixon, p. 130-31, 138-39

The Legacy of UNTAET

Despite conditions in East Timor that appeared to presage peace-building success, Anthony Goldstone argues that UNTAET was from the outset hindered by a number of structural factors that undermined its legitimacy and ability to fulfill its responsibilities. Resolution 1272 offered little guidance regarding the means by which UNTAET was to fulfill its mandate, and, while calling for UNTAET to cooperate and work closely with the East Timorese people, did little to clarify how such participation was to be achieved. This lack of clear planning and direction resulted in a ‘trial and error’ approach to governance and institution-building, and negligible involvement of Timorese in the political and administrative structures established.⁴⁵ This non-consultative tendency carried through into the independence period, largely as a result of the institutional template established by international interveners and the nature of ongoing relations between the independent government and the donor community.

UNTAET’s state-building activities were conducted through the Office of Governance and Public Administration (GPA), which bore responsibility for establishing mechanisms of governance at the central and district levels, managing a civilian police force, restoring public service provision, establishing the rule of law, and fostering market development.⁴⁶ The viability of the institutions established, however, was sorely affected by UNTAET’s centralized and authoritarian style, which generated resentment and mistrust and ultimately resulted in the UN’s accelerated withdrawal in response to demands for a faster and more comprehensive transfer of power to Timorese leaders. This unwillingness to share power until the latter stages of the transitional administration greatly undermined the ability of local leaders to build sufficient capacity to perform the required tasks for the running of liberal institutions.⁴⁷

The state-building aspects of UNTAET’s mandate floundered under UN Department of Peace Keeping Operations (DPKO) management, which – in keeping with its operational experience – structured the mission as a peacekeeping operation. The recruitment, budgetary, and organizational aspects of the mission were therefore

⁴⁵ A. Goldstone. (2004) UNTAET with Hindsight: The Peculiarities of Politics in an Incomplete State. *Global Governance* 10(1):83-98, p. 85-87

Chopra (2000); Beauvais, p. 1105-106

⁴⁶ Richmond and Franks, p. 188

⁴⁷ Ibid. p. 190

informed by standard peacekeeping practice, and failed to adequately provide for the civilian governance requirements of the mission. Lacking experience or capacity for managing large governance operations, the planning phase emphasized security-oriented tasks at the expense of other components of the mission – in particular the operation’s legal and civilian administration components.⁴⁸ Chopra has commented that high ranking UNTAET officials – including SRSG Sergio de Mello himself – exhibited a controlling, ‘bullying’ style which contributed to internal fragmentation in the GPA and further undermined UNTAET’s capacity to implement successful reconstruction strategies or establish an effective bureaucracy.⁴⁹ These factors – together with the lack of local knowledge of the mission’s international personnel – contributed to a lack of clear operational ‘direction’ and reinforced the top-down mentality of the operation.

The result of this combination of operational uncertainty, bureaucratic centralism, and administrative incapacity was that at its very conception, Timor-Leste inherited an institutionally weak state.⁵⁰ Chopra has gone so far as to argue that UN administration had “given birth to a failed state”, the social and political conditions of which were comparable to “the most severely collapsed states in the world.”⁵¹ The inadequate attention paid to building local capacity for self-government meant that the newly established state institutions remained essentially foreign structures with very little basis in Timorese society. Without some form of social contract to foster local legitimacy, such rapidly constructed institutions could scarcely have proven responsive to their local constituency. In its refusal to recognize the CNRT as a local partner for governance and development, UNTAET squandered a potential opportunity to establish local legitimacy by interacting with and building on pre-existing Timorese governance structures.⁵² Throughout the transitional period, the administration’s real constituency was located externally in the international organizations, UN member states and donor governments involved with the running of the mission. The product was a “state-building enterprise that skidded on the

⁴⁸ A. Suhrke. (2001) Peacekeepers as Nation-Builders: Dilemmas of the UN in East Timor. *International Peacekeeping* 8(4):1-20, p. 10

Butler, p. 91

⁴⁹ Chopra (2000), p. 33-34

⁵⁰ Chopra (2002), p. 996, 999; Nixon, p. 132-133; Goldstone, p. 95

⁵¹ Chopra (2002), p. 979

⁵² Richmond and Franks, p. 192, 195

surface of the country, and that did not penetrate the sub-districts and villages or make a positive difference in the daily lives of individuals.”⁵³

Beyond Independence: Societal Alienation and the Insulated State

The Democratic Republic of Timor-Leste became an independent state on 20 May 2002. The UN remained in the country in a reduced capacity to carry out a supporting role for the new independent administration. UNTAET was succeeded by the UN Mission of Support in East Timor (UNMISSET), which was tasked with supporting the new government’s administrative and security capacities until 2005, when it was replaced by a small observer mission, the UN Office in Timor-Leste (UNOTIL). The UN presence would be scaled up once again in mid-2006 following a brief conflict that pitted the defence force against the police force, and resulted in the forced resignation of the Prime Minister and the prosecution of members of his cabinet (the events of 2006 will be addressed in further detail later in the chapter). The UN Mission in Timor-Leste was deployed in August 2006 with a mandate to provide administrative support to the Timorese government, and as such was endowed with greater responsibilities and authority than UNMISSET and UNOTIL.⁵⁴ Although only intended to last one year, UNMIT’s mandate was extended four times, finally concluding with the withdrawal of the mission in December 2012.

The fledgling Timorese nation inherited a collection of externally constructed institutions that stood in abstraction from social and political realities. UNTAET’s technocratic efforts to insulate state institutions from potentially harmful social forces and ‘blank slate’ approach to reconstruction in East Timor resulted in the formation of an ‘insulated state’ with little basis in Timorese society.⁵⁵ As argued in previous chapters, the formation of stable states is a historically contingent process – a process deeply rooted in social relations that determine the role, structure, and power of states in accordance with social expectations.⁵⁶ This contractual relationship ensures some level of accountability to local constituents, although accountability mechanisms may

⁵³ Chopra (2002), p. 998

⁵⁴ UNMIT’s tasks included ensuring public security, assisting in security sector reform, providing support for government institutions, helping to facilitate national elections, and investigating and prosecuting human rights crimes. See Butler, p. 95

⁵⁵ L. Jones. (2010) (Post-)Colonial State-Building and State Failure in East Timor: Bringing Social Conflict Back In. *Conflict, Security & Development* 10(4):547-75, p. 563

Hughes

⁵⁶ Jones, p. 548-50

take different forms in different social and political contexts.⁵⁷ Essentially, states must remain responsive to forces operating in society in order to secure their ongoing political legitimacy in the eyes of the local population.

The process of state formation that occurred in East Timor did not follow this pattern. In their efforts to foster peace in a country scarred by conflict, interveners associated high levels of physical destruction with a presumed absence of structures for local organization.⁵⁸ Adhering to internationally prescribed concepts of what constitutes a peaceful society, interveners disregarded existing governance structures in favour of an institutionalist, technocratic model.⁵⁹ As a result, the state-building process that took place resembled an experiment in liberal ‘state transplantation’ rather than any meaningful attempt to support the emergence of locally relevant governing structures. Accordingly, the peace that has been constructed in Timor-Leste is a “virtual peace resting on [the] empty institutions” of an “illiberal and ineffective state”.⁶⁰ These institutions are neither viable instruments of public administration – as suggested by the country’s consistently low development outcomes, inadequate public service provision, and poor budgetary capacity – nor are they relevant in terms of local culture and everyday life for the average Timorese citizen.⁶¹

The ineffectual state institutions that have been established in Timor-Leste, although legally sovereign, are largely defined and dependent upon the international community. This dependent and in many ways subordinate relationship is a magnification of the changing nature of sovereignty in international relations, a trend that impacts all countries. However, nowhere has the concept of ‘sovereignty’ been more dramatically redefined than in the state-building experiments of post-conflict countries. Chandler argues that international state-building attempts have brought about the ‘inversion’ of the sovereign state, wherein the state no longer embodies the collective wishes of the nation, serving instead to channel inward an externally driven agenda. The state has undergone a fundamental transformation, having been restructured in accordance with the dictates of ‘good governance’ into a ‘mediating link’ between domestic politics and international relations.⁶² This is the function performed by the state in Timor-Leste – that of a gatekeeper between the domestic

⁵⁷ Ibid.

⁵⁸ Hughes, p. 95; Jones, p. 558

⁵⁹ Hughes, p. 95-96

⁶⁰ Richmond and Franks, p. 198

⁶¹ Ibid. p. 197-98; Jones, p. 550

⁶² Chandler (2006), p. 43

and the global, dependent upon the international community for survival and ultimately more responsive to this external constituency than its national community.⁶³

In this context, the extent to which Timorese society can be accurately described as ‘self-determining’ or truly independent is highly questionable. Hughes describes sovereign communities as collectives that “employ local knowledge and deploy locally generated legitimacy”⁶⁴ – a capacity that has been notably absent in the brief history of Timor-Leste and remains beyond the grasp of most communities subject to external peace interventions. The experiences of Timor-Leste demonstrate that, in practice, a great gulf may exist between sovereignty in its formal, legal sense, and the actual ability of states to act as a collective expression of society. Such states are sovereign in name only – they bear sovereign status on paper, but do not function as independent, self-governing political entities. In practice, the condition of aid dependence brought about by the state-building project prevents the exercise of true sovereignty.⁶⁵

The reformulation of sovereignty associated with the state-building agenda has generated a form of statehood in which states are increasingly embedded in international institutions. Perhaps the clearest manifestation of this ‘embedded sovereignty’ can be seen in the governance arrangements for Bosnia. Although formally existing as an independent country with its own elected legislature, the highest political authority in the country is an externally-appointed representative of the international intervention in Bosnia (the High Representative for Bosnia and Herzegovina), who retains the power to dismiss elected officials and to repeal or pass legislation over twenty years after the initial intervention.⁶⁶ In Timor-Leste, where the withdrawal of the UN transitional administration spelled an end to official international sovereignty, the practical outcome in terms of government policy is much the same, with the government required to court international support for legislation or risk being hamstrung by donor disapproval. Where government policies have strayed from international approval, pressures applied by external donors and

⁶³ Hughes

⁶⁴ Ibid. p. 2

⁶⁵ Chandler (2006), p. 43

⁶⁶ Ibid. p. 43

institutions to conform to an externally prescribed policy agenda have constrained the government's ability to take autonomous action.⁶⁷

The outcome of the implementation of this externally driven model has been the widespread alienation of the East Timorese population. Timorese participation in state-building activities has been largely limited to a small, Dili-based, Portuguese-speaking elite, excluding the voices of the majority of the population living in rural areas, and also marginalizing the Indonesian-educated youth population, whose activism had been essential to ensuring ongoing international attention to the Timorese resistance movement during the 1990s.⁶⁸

As previous chapters have illustrated, recent approaches to state-building have emphasized the contextual nature of state formation, and the importance of fostering state-society relationships in order to lay a foundation of political legitimacy for state authority.⁶⁹ These approaches recognize the importance of a social contract between the state and the societies they govern, and the need for state-builders to incorporate local systems of governance and legitimacy into new institutional frameworks. It has been noted that the process of institution building in East Timor before independence did not pay adequate attention to such local structures, nor did it create opportunities for adequate Timorese participation in the transitional process. Rather, the “institutionalist and rationalist” approach to constructing state institutions in East Timor relegated the Timorese people to the sidelines, creating a scenario in which “[i]ndividuals and their relationship with the state are defined by the institutions of governance, rather than by their own contractual agency.”⁷⁰ Instead of the promotion of a social contract rooted in indigenous concepts of authority (admittedly a lofty task for an intervening force to achieve), the situation in Timor-Leste is that of an alien state coexisting in uneasy relationship with Timorese society. Local ‘contracts’ have been replaced by the governance contract, which prescribes for the state a role that it has been largely incapable of fulfilling.

Governance in an Aid Dependent State: Negotiating the Domestic and the Global

Caroline Hughes describes the situation of the government of Timor-Leste since independence as one of aid dependence, defined as “the pressing and continuous

⁶⁷ Hughes, p. 139-152

⁶⁸ Ibid. p. 96, 184

⁶⁹ See, for example, OECD (2008)

⁷⁰ Richmond and Franks, p. 187

orientation of local political practices towards a monitoring, evaluating, and decision-making international audience.”⁷¹ Extreme levels of international supervision associated with the state-building project in East Timor have functioned as a ‘political straitjacket’, diminishing the possibilities for the formation of a truly empowered national public sphere as an arena for popular participation and consultation.⁷² Domestic politics has been effectively emptied of content – little is at stake due to the removal of many questions of social and economic policy from democratic contention. Good governance has facilitated the transfer of formerly domestic considerations into the international sphere, removing key decisions from the purview of the national community and leaving few areas open to democratic contestation.⁷³ The result of state-building intervention in the country has been “the subordination of the national public to international surveillance and regimentation”,⁷⁴ with the pursuit of good governance requiring Timorese institutions to structure themselves in accordance with stringent international standards.⁷⁵

Thus donor expectations have frequently required the Timorese government to elevate international priorities over specifically local concerns. Local political authorities must behave in such a way as to secure continuing access to the international resources upon which the state depends, often marginalizing local constituencies in the process.⁷⁶ In order to attract external resources, the FRETILIN government upheld UNTAET’s centralized, technocratic approach once in power, placing a greater emphasis on international diplomacy than on the rapid economic decline occurring within the country. This trend was manifest in the government’s adoption of austerity measures between 2002 and 2006, despite the widespread economic hardship experienced in Timor-Leste after independence. Driven by an admirable desire to reduce Timorese dependence in the long-term by refusing to take out international loans, Mari Alkatiri’s government proposed a number of economic nationalist measures in order to cover budgetary shortfalls, but was forced to abandon

⁷¹ Hughes’ definition differs greatly from the dominant conception of aid dependence articulated in development circles. Mainstream development accounts describe dependence as the reduced economic efficiency and altered local decision-making processes brought about by the economic distortions associated with an overreliance on aid. Often linked with welfarism, such dependence is seen as detrimental to market development. See Hughes, p. 7

⁷² Hughes, p. 3, 5

⁷³ Chandler (2006), p. 45; Hughes

⁷⁴ Hughes, p. 3

⁷⁵ Ibid. p. 5

⁷⁶ Ibid. p. 8

most of these in the face of pressure from donor agencies and international business interests.⁷⁷

This pressure to court international approval at the expense of domestic requirements raises important questions regarding the nature of democracy in post-conflict environments, and in particular the impact of state-building activities on the prospects for broadly inclusive democracy in subject states. The form of democracy constructed in post-conflict environments such as East Timor reflects a minimalist, procedural vision of democracy – an approach that places particular emphasis on democratic processes, such as multiparty elections, often at the expense of genuine broad-based participation.⁷⁸ ‘Procedural democracy’⁷⁹ provides equal formal rights, yet by its tendency to elevate process over participation provides unequal resources for the utilization of these rights. This is the form of democracy promoted by contemporary development discourse – one that reflects the tendency in development circles to separate the political and economic spheres by dissociating democracy from notions of social progress and economic equality. The favouring of formal legal rights over socio-economic rights is a result of the conflation of democracy and economic liberalism within the governance agenda, and represents a common feature of liberal peace-building activities in the intersecting areas of state-building and development.⁸⁰

Abrahamsen argues that the form of democracy arising from the governance agenda’s conflation of democracy and economic liberalism often “bears little relevance for the majority of citizens in developing countries.”⁸¹ The majority of poor citizens in these countries, she argues, value their political and civil rights largely as a means for demanding socio-economic reform. Thus engagement in democratic politics is seen as a means of achieving a better standard of living. However, the governance agenda as currently promoted by the development community emphasizes the procedural elements of democracy without any corresponding commitment to resource redistribution or socio-economic equality.⁸² The outcome in Timor-Leste has been extreme disillusionment amongst the majority of the Timorese population, whose democratic experience has proved tremendously disempowering, producing

⁷⁷ Ibid. p. 144-45

⁷⁸ Hughes, p. 14-16

⁷⁹ Ibid. p. 15

⁸⁰ Abrahamsen, p. 73-76

⁸¹ Ibid. p. 77

⁸² Ibid. p. 77-79

few tangible results and bequeathing on them a “state [with] little substance” or bearing on everyday life.⁸³

Popular disillusionment with the experience of ‘independent’ statehood played a pivotal role in the 2006 riots in Timor-Leste, allowing for the rapid mobilization of disenfranchised groups in Dili in response to an initial dispute between the armed forces. Discontent had been brewing amongst members of the F-FDTL (East Timor Defence Force) from the western part of Timor-Leste – known as the ‘Kaladi’ – in response to perceived discrimination from the predominantly eastern (‘Firaku’) officers. On 28 April, protests in Dili by Kaladi petitioners were joined by other disaffected groups, including ex-veterans and youth gangs, sparking clashes between protesters and security forces and between rival gangs, which engaged in a spate of looting and arson that targeted the homes and property of easterners. The police forces disintegrated completely after twelve members of the national police (PNTL) were killed in clashes with the military. Widespread violence continued throughout May until the deployment of an international stabilization force, and sporadic violence continued into 2007. At least thirty-eight people were killed and sixty-nine wounded during the conflict, which resulted in the destruction of over 1,500 houses and the displacement of 150,000 people.⁸⁴

The political fallout from the conflict was dramatic and immediate. Defence Minister Roque Rodrigues and Interior Minister Rogério Lobato were removed from their posts immediately, with Lobato accused of arming para-military groups for personal political interests. Lobato’s court testimony implicated Prime Minister Alkatiri in the irregular distribution of weapons for use against political opponents, who was forced to resign on 26 June, to be succeeded by Jose Ramos-Horta as interim Prime Minister. FRETILIN received only 29 per cent of the party vote (down from 59 per cent in 2001) in national elections the following year, and was removed from office by a party coalition headed by Xanana Gusmão.

Hughes argues that the structure of the Timorese state and its relations with the donor community prevented it from carrying out the crucial governmental function of political management. In order to maintain stability and legitimacy, governments must have the capacity to reward and respond to their main constituencies. However, throughout its term the FRETILIN government was unable

⁸³ Richmond and Franks, p. 197

⁸⁴ Nixon, p. 136-37; Hughes, p. 153-55

to accommodate the economic and political demands of the Timorese population – a failure that expressed itself in the buildup of anti-government sentiment that emerged during the 2006 crisis.⁸⁵ Restrictions on the use of state power in Timor-Leste as a result of external state-building prescriptions had denied the Timorese government the capacity to build popular support through public spending.⁸⁶ As a result, the FRETILIN government sought to build a support base through alliances with other social forces, including clan networks and regional interests such as those that manifested themselves in the conflict of 2006. Social competition for power and resources that may otherwise have found expression in the political process – but had been denied as a result of neo-liberal constraints on economic policy – was thus expressed within the state apparatus itself. Disenchanted social groupings seeking to have their economic and political demands met were incorporated into leaders' patronage networks in an environment of intense competition over scarce resources.⁸⁷ The 2006 crisis demonstrates the dangers of the denial of sovereign authority and political legitimacy associated with the state-building project. Attaining a stable government in Timor-Leste in future will therefore be attendant on the ability of national governments to carve out space for discretionary action, independent of donor politics.

Conclusion

Timor-Leste's lack of autonomy since independence has prevented successive governments from responding to popular pressure for socio-economic reform. Human development represents one of the greatest challenges facing the new country, and the population has repeatedly called for a more equal distribution of resources. However, these demands have not been translated into policy at the government level, where the beleaguered state has been largely prevented from directing its financial resources towards human development outcomes.⁸⁸ The following chapter will explore this issue in depth, particularly in relation to the management of Timor-Leste's oil funds and donors' responses to proposals to draw down greater quantities to fund public welfare.

⁸⁵ Hughes, p. 155

⁸⁶ Jones, p. 558, 561

⁸⁷ Ibid. p. 561-63

⁸⁸ Hughes, p. 139-52; Jones, p. 561

Chapter Five: DEVELOPMENT AND RESOURCE POLICY IN AID DEPENDENT TIMOR-LESTE

Introduction

The exercise of neo-liberal governance in the South generally translates into a ‘triangular relationship’ between three sets of actors: the state, “cross-cutting global networks of interveners, investors, and donors”, and “the mass of the impoverished population”.¹ The requirements of neo-liberal governance place these actors in a state of great tension. As noted in earlier chapters, processes of international state-building and neo-liberal development expose states to a dilemma between internal and external standards of legitimacy. Conditions of aid dependence often require governments in developing countries to accede to the demands of external interveners, posing considerable difficulties for elites who must simultaneously generate political legitimacy at home.² This chapter will explore this dynamic in Timor-Leste in relation to the management of oil resources, questions of food security, land, agricultural policy, and broader issues of social and economic development.

Petroleum

Issues regarding the exploitation and management of oil reserves in Timor-Leste highlight the challenges of pursuing a path of autonomous economic development in the context of global economic governance. This challenge is magnified by conditions of aid dependence, which require states to submit to a greater degree of external neo-liberal discipline. The post-independence Timorese government under Mari Alkatiri sought to end Timor-Leste’s aid dependence as quickly as possible, and refused the World Bank’s urging to cover budgetary shortfalls accruing from reductions in aid by signing up to loans and debt. The government dealt with the resulting financial deficit by slashing its budget and imposing austerity measures – despite the desperation of much of the Timorese population. The

¹ Hughes, p. 135

These ‘cross-cutting networks’ have often been referred to throughout this thesis in generic terms as ‘external agents’, ‘international interveners’, or at times even more broadly as ‘the international community’. It is important to recognize that these networks do not constitute one unified entity, but a coalescing of international financial and political actors and interests around the concept of neo-liberal governance.

² Tadjbakhsh; Hughes

government's willingness to cut expenditure was lauded by IFIs as a "masterly display of fiscal responsibility and neoliberal minimalism."³ Less favourable to international donors were the government's efforts to elicit revenue by establishing a progressive income tax system and imposing fees and taxes on foreign agencies and investors. These measures gave the country a bad reputation amongst international investors; by 2006, Timor-Leste was considered the second worst country to do business, based on World Bank survey ratings.⁴

The government's greatest opportunity to achieve economic autonomy depends upon the maximization of revenues from oil and gas reserves in the Timor Sea, estimated to be worth US\$30 billion.⁵ The Timor-Leste Strategic Development Plan outlines a key role for the petroleum sector in its vision for national development for Timor-Leste. By 2030, the government hopes to transform Timor-Leste into a "modern diversified economy", based on a system of commercial smallholder agricultural production for domestic and international markets, and a large industrial petroleum sector generating both upstream and downstream revenue through oil extraction and onshore oil and gas refinery.⁶ Underpinned by a sophisticated infrastructural network of roads, ports, power, and telecommunications, the petroleum and agricultural sectors are projected to serve as the foundations for sustainable economic development, providing income for investments in health and education services. The maximization of oil revenues in the short-term is seen as a first step towards this process, providing crucial funding for the long-term development of the agricultural sector into a "leading driver of private sector jobs" and the construction of a solid infrastructural foundation for broader development.⁷

Oil and gas exploration in the waters surrounding East Timor began in 1962. By 1970, the presence of viable petroleum and gas reserves in the Timor Sea and Bonaparte Gulf region had been detected. Seismic data also suggested the presence of further, potentially vast hydrocarbon reserves in the Timor Sea. Exploitation of these reserves required the clarification of respective claims to the seabed by Australia and

³ Hughes, p. 144

⁴ Ibid. p. 145

⁵ Ibid. p. 145

⁶ República Democrática de Timor-Leste. (2011) Timor-Leste Strategic Development Plan 2011-2030. Dili. Online at <<http://timor-leste.gov.tl/wp-content/uploads/2011/07/Timor-Leste-Strategic-Plan-2011-20301.pdf>> (Accessed 22 January 2013), p. 106

⁷ Ibid. p. 9

Indonesia.⁸ The Australian government sought to reach a rapid settlement of maritime boundaries with Indonesia, which could then be presented to Portugal (who remained the colonial power of East Timor at the time, and from whom some resistance was anticipated) as a *fait accompli*. At the time of these bilateral negotiations in the early 1970s, Indonesia had carried out no exploration of its own in the Timor Sea, and had little evidence of its own to counter aggressive Australian claims to maritime territory. It is doubtful whether Indonesia was aware of the vast hydrocarbon potential in the Timor Sea – as yet unproven but presumed to exist, and later confirmed in 1974 with the discovery of the Greater Sunrise natural gas field in the Timor Sea.⁹

The Australian seabed claim extended as far north as the Timor Trough, which the Australian government argued constituted a break in the continental shelf between Australia and Timor, creating two distinct shelves separating the Australian and Timorese coasts. According to this interpretation, the Timor Trough formed a natural divide between a narrow shelf extending from Timor, and a wide shelf extending from the Australian coastline. The Australian government bolstered its claim with an abundance of oceanographic data, which was alleged to provide firm geological evidence that Timor Trough indeed marked the end of the Australian plate. In the area to the east of longitude 133°14' East, where Indonesia and Australia shared a common shelf, Australia held that an equitable boundary should be drawn.¹⁰

According to international law, maritime boundaries between adjacent countries are situated along the median line between the countries' coasts, unless otherwise specified on the basis of official agreement between respective governments. Australia argued that the presence of the Timor Trough constituted 'special circumstances' under the 1958 Geneva Convention whereby the median principle did not apply, as the Convention did not specify a legal precedent for maritime boundaries where two continental shelves existed. The Indonesian

⁸ R. King. (2013) A Gap in the Relationship: The Timor Gap, 1972-2013. In *Submission No 13: Inquiry into Australia's Relationship with Timor-Leste*. Canberra: Joint Standing Committee on Foreign Affairs, Defence and Trade, p. 2

⁹ Ibid. p. 4, 8-9

¹⁰ Ibid. p. 2-3, 9

H. McDonald. (2013) 'It's Tiny, Poor, and Very Possibly Not Going to Take It Anymore.' In *The Global Mail*. Online at <<http://www.laohamutuk.org/Oil/Sunrise/2013/TGMTinyPoor28Mar2013.pdf>> (Accessed 25 November 2014), p. 3

Geological consensus at the time implied that a shared continental shelf extended north of Timor, with the Timor Trough representing only an incidental depression in the seabed rather than the boundary of two shelves. This was the view put forward by Indonesian representatives to the negotiations. See King, p. 2-3

government did not subscribe to this view, yet succumbed to the weight of Australian argument and to political considerations that inclined the regime to court the favour of its southern neighbour.¹¹

Eager to gain international recognition after the overthrow of the previous government and a series of bloody anti-communist purges, and apparently unaware of the extent of the Timor Sea's oil and gas potential, the Indonesian regime acceded to Australia's demands.¹² The Seabed Agreement was signed in October 1972, fixing the boundary approximately two-thirds of the way between Australia and the Indonesian islands, close to the Timor Trough. The negotiations left a 'gap' in the seabed boundary to the south of East Timor – known as the 'Timor Gap' – in recognition of the Portuguese claim to maritime territory.¹³ The exclusion of the Timor Gap from the 1972 Agreement would leave the area open to further bilateral negotiations between the Australian and Indonesian governments in future.¹⁴

Australia was the first Western government to legally recognize the Indonesian annexation of East Timor, and was rewarded in 1989 with the settlement of the Timor Gap Treaty after years of negotiations. The Treaty established a joint-development area in the Timor Gap, whereby the two nations would cooperate in offshore petroleum exploration and exploitation and each receive 50 per cent of revenues. The Timor Gap Treaty lapsed when the East Timorese voted for self-determination in 1999, spelling an end to the Indonesian claim to oil reserves in the Timor Sea. An interim treaty negotiated with the UN administration enabled the continuation of oil extraction during the UNTAET era. It was replaced by the 2002 Timor Sea Treaty, which created a Joint Petroleum Development Area (JPDA) between Australia and Timor-Leste on the basis of the previous boundaries established with Indonesia, and accorded 90 per cent of revenue from the JPDA to the Timorese government and the remainder to Australia.¹⁵ The JPDA incorporates the Bayu-Undan oil and gas field, which was projected to generate US\$6 billion in revenue for the Timorese government over a 20-year period (see figure 1).¹⁶

¹¹ King, p. 2-3

¹² McDonald, p. 3

¹³ Despite remaining the colonial power in East Timor at the time of the Agreement, Portugal was excluded from the negotiations. The incumbent Indonesian regime appeared more amenable to the Australian position than Portuguese authorities, whilst the decline of Portuguese influence in the region appeared to prelude an expansion of Indonesian influence in future. See King, p. 5-9

¹⁴ King, p. 1, 5-6

¹⁵ Ibid. p. 1; McDonald, p. 4

¹⁶ King, p. 47

Immediately prior to signing the Timor Sea Treaty, Prime Minister Alkatiri specified that the agreement should ‘under no circumstances’ be construed to signify a maritime boundary, and announced the government’s intention to utilize international mechanisms to achieve a revision of the seabed boundary and a greater proportion of oil and gas revenues.¹⁷ Replicating the boundaries established in earlier negotiations with Indonesia, the treaty situated the majority of the most profitable petroleum ventures in Australian territory. These boundaries place 80 per cent of the Greater Sunrise oil and gas field – comprised of two large oil and gas fields, together constituting three times the size of Bayu-Undan – in Australian territory, and 20 per cent in the JPDA (see figure 1).¹⁸

Figure 1. Timor-Leste's maritime rights (under the median principle), current treaty boundaries, and the distribution of oil and gas reserves.¹⁹

¹⁷ Ibid. p. 47

Foreign Minister José Ramos Horta expressed a belief that Australia, as a “fair-minded country”, would concede a larger share of Greater Sunrise gas field through negotiation.²⁰ The Treaty was thus seen as a short-term contract to ensure the generation of oil revenues whilst the two countries sought a solution to the dispute. The Timorese government maintained exclusive right to revenues from the disputed oil and gas fields under international law, yet lacked the financial resources to finance its budget without oil revenues. Facing a precipitous reduction in aid flows following the departure of UNTAET in 2002, the Timorese government opted for a compromise to ensure that gas exploration would continue in the interim as it searched for a more favourable settlement.²¹

Four years of bitter negotiations between Dili and Canberra followed, during which Timor-Leste continued to claim exclusive rights over the disputed fields. The Australian government responded with bullying, intelligence surveillance of Timorese officials, and delaying tactics, offering various specious legal and technical arguments whilst continuing to extract revenues of around US\$1 million a day.²² To generate international support for its claim and shame Australia into acquiescence, the Timorese government initiated an international publicity campaign. This campaign generated considerable support internationally and within Australia itself, and drove the Australian government to make a series of concessions, whilst still maintaining its essential position regarding the position of the maritime boundary.²³

In 2006, facing considerable economic pressure domestically and continuing Australian intransigence over maritime rights, the government of Timor-Leste accepted Australia’s offer to increase its share of upstream revenue from Greater Sunrise to 50 per cent. The Treaty on Certain Maritime Arrangements in the Timor Sea (CMATS) was ratified in February 2007, to remain in effect until 2057. The CMATS established a framework for joint exploitation of the Greater Sunrise field between Australia and Timor-Leste, which had not been possible under the terms of previous treaties, as only 20 per cent of Greater Sunrise is located within the JPDA. It also set a moratorium on claims to sovereign rights and maritime boundaries for the duration of the treaty, barring the government of Timor-Leste from asserting

²⁰ East Timor Considers Court Action against Australia. (20 May 2002) Asia Pulse. Online at <<http://www.etan.org/et2002b/may/19-25/20etcons.htm>> (Accessed 1 December 2014)

²¹ Hughes, p. 143-144, 146, 149; King, p. 47

²² Hughes, p. 146; McDonald, p. 4

²³ Hughes, p. 147

jurisdiction over maritime territory incorporating the Greater Sunrise field for the next 50 years.²⁴

The treaty permits termination by either party if initial plans for the development of Greater Sunrise had not been settled by 2012. To date, basic development plans remain subject to considerable dispute, stemming largely from disagreements over arrangements for petroleum processing. Successive Timorese governments have insisted on the location of a liquefied natural gas (LNG) processing facility in Timor-Leste, anticipating considerable spin-offs from downstream processing in terms of local employment and local and national economic development. Government revenue from oil is currently derived exclusively from taxes on offshore exploration and production, with revenues from midstream and downstream sectors (transportation, refinery, and processing) realized in other countries.²⁵

The government's ambitions regarding the Sunrise LNG plant have thus far been thwarted by Woodside Petroleum – the Australian company that operates the Sunrise project – which has rejected piping gas to Timor-Leste, citing technical risks posed by the Timor Trough in laying and maintaining a pipeline. Woodside maintains that the LNG development plan is a commercial decision, and has indicated its intention to construct a floating LNG plant in the Timor Sea or a pipeline to Darwin for processing.²⁶ Whilst domestic opinion is primarily in favour of the construction of an onshore LNG plant in Timor-Leste, some groups have declared the plan unfeasible in light of the country's current economic and infrastructural conditions.²⁷

In 2013 the Timorese government initiated arbitration proceedings in favour of its right to terminate the CMATS. The government disputes the validity of the treaty, arguing that the Australian government engaged in espionage during the course of negotiations in 2004, rendering the provisions of the treaty void. Australia denies these allegations, and contends that the CMATS remains valid. The dispute is beyond the jurisdiction of the International Court of Justice (ICJ) or the dispute settlement provisions of the United Nations Law of the Sea Convention (LOSC), as Australia

²⁴ D. K. Anton (2014) The Timor Sea Treaty Arbitration: Timor-Leste Challenges Australian Espionage and Seizure of Documents. *American Society of International Law Insights* 18(5).

²⁵ G. Neves et al. (2008) Sunrise LNG in Timor-Leste: Dreams, Realities and Challenges. Dili: La'o Hamutuk, p. 3

²⁶ La'o Hamutuk. (2014) The Greater Sunrise Oil and Gas Project.
<<http://www.laohamutuk.org/Oil/Sunrise/10Sunrise.htm>> (Accessed 1 December 2014)

²⁷ Neves et al.

withdrew from these mechanisms shortly prior to Timorese independence. The Timorese government is therefore seeking to overturn the CMATS on the basis of dispute settlement provisions within the 2002 Timor Sea Treaty, arguing that the Australian government used fraudulent means to secure Timorese consent.²⁸

The maritime dispute between Timor-Leste and Australia highlights the unequal relations of power that face small, developing, or newly established states on the international stage. As a small, newly independent nation, impoverished after decades of exclusion and conflict, Timor-Leste has few resources with which to assert its sovereign interests against larger national powers or corporate interests. Furthermore, the oil issue in Timor-Leste illustrates the challenges of pursuing autonomous economic development within a framework of global economic governance, as the government has struggled to exercise economic sovereignty within the confines of external neo-liberal discipline.²⁹

Hughes argues that efforts by the Timorese government to secure a greater degree of economic sovereignty have served to bind it more tightly to international prescriptions regarding development policy.³⁰ Timorese attempts to gain international leverage in its dispute with Australia limited the options available to the government, requiring it to submit to external preferences in the management of oil revenues and plans for the public investment of oil wealth in order to reassure an international audience. Despite having succeeded in reducing economic conditionalities associated with debt financing, the task of garnering international support for its oil claims required the Timorese government to conform more closely to international prescriptions of economic management. In particular, the Alkatiri government sought to reassure the international community that the country was capable of managing such vast natural resource revenues in a competent and transparent manner.³¹

International attitudes to natural resource management are informed by the dominance of the 'natural resource curse' argument in economic circles. The idea of a 'resource curse' is linked to the high prevalence of corruption and conflict in many resource-rich developing countries, where the illegal exploitation of resources and allocation of profits may be used to garner political support, and domestic competition for resources has often resulted in internal armed conflicts. International economists

²⁸ Anton

²⁹ Hughes

³⁰ Ibid. p. 148

³¹ Ibid. p. 146-48

have argued that the exploitation of large quantities of natural resources often has a detrimental impact on political and economic institutions, largely due to economic distortions as a result of an unbalanced emphasis on extractive industries and fluctuations in revenue arising from price volatility on international markets.³² These arguments have conditioned international approaches towards Timor-Leste, stirring up fears that the Timorese state may be incapable of managing the large revenues projected from oil exploitation.³³

Donor concerns regarding the ‘resource curse’ have influenced the way in which the government may use its oil revenues. In order to assuage these concerns, the Timorese government passed the Petroleum Fund Law in 2005, which required that all petroleum revenues be deposited in a Petroleum Fund (PF), to be held outside Timor and managed jointly by the Central Bank of Timor-Leste and the Ministry of Finance. The Petroleum Fund Law states that:

The Petroleum Fund shall contribute to a wise management of the petroleum resources for the benefit of both current and future generations. The Petroleum Fund shall be a tool that contributes to sound fiscal policy, where appropriate consideration and weight is given to the long-term interests of Timor-Leste’s citizens.³⁴

Administration of the Fund has been conducted with a high degree of transparency and disclosure of information in order to ensure accountability and international confidence, and from 2009 the participation of external banking and investment groups was sought to assist in the management of the Fund’s portfolio.³⁵ The terms of the Fund permit the government to withdraw approximately 3 per cent of revenue each year to finance the state budget, corresponding to an Estimated Sustainable Income (ESI) calculated by the Ministry of Finance.³⁶ However, government plans to

³² Ibid. p. 146

For a more detailed description of the resource curse argument, see J. D. Sachs and A. M. Warner. (2001) *The Curse of Natural Resources*. *European Economic Review* 45(4/6):827-38; I. Bannon and P. Collier. (2003) *Natural Resources and Violent Conflict: Options and Actions*. Washington, D.C.: World Bank.

³³ Hughes, p. 146

³⁴ National Parliament of Timor-Leste. (2005) Petroleum Fund Act. *Law No. 9/2005*. Online at <<https://www.mof.gov.tl/wp-content/uploads/2011/09/Petroleum-Fund-Law-English.pdf>> (Accessed 2 December 2014), Preamble

³⁵ Timor-Leste Ministry of Finance. (n.d.) Petroleum Fund of Timor-Leste. <<https://www.mof.gov.tl/budget-spending/petroleum-fund/?lang=en>> (Accessed 26 November 2014)
Central Bank of Timor-Leste. (2014) Petroleum Fund of Timor-Leste. <<http://www.bancocentral.tl/pf/main.asp>> (Accessed 26 November 2014)

³⁶ C. Scheiner. (2014) Can the Petroleum Fund Exorcise the Resource Curse from Timor-Leste? Dili: La'o Hamutuk. Online at

withdraw further quantities from the PF – with parliamentary support – in order to fund free education and health care and establish public enterprises as an engine for economic growth have met with predictable opposition from international donors.³⁷

Rejecting proposals to channel oil revenues towards the formation of a developmental welfare state – one which would actively pursue policies of redistribution and establish state-directed industries as a foundation for national development – the UNDP and other international agencies have cautiously recommended a policy of ‘effective’ utilization of oil wealth to “promote sustainable development of the non-oil economy.”³⁸ To date, ‘prudent’ financial management and high returns on oil resources³⁹ have not translated into positive socio-economic outcomes for the majority of the Timorese population. Whilst the government has gone to great lengths to manage revenues in a responsible and sustainable manner, little progress has been made in using these revenues to support wider economic initiatives that will benefit its citizens.⁴⁰ It is essential that the government establish a broader non-oil basis for the Timorese economy, particularly if it is to achieve its aims of drawing on petroleum revenue to support self-reliance and domestic priorities for economic development. Oil revenues peaked in 2012, and oil and gas reserves are expected to run dry within six years.⁴¹ Whilst there are considerable grounds for disputing the ‘resource curse’ thesis, too great a reliance on the oil sector at the expense of other areas of the economy will not be sustainable in the long term – particularly in light of dwindling oil reserves.

Over 95 per cent of state revenue and three-quarters of GDP is derived from oil and gas exports, making Timor-Leste one of the world’s most petroleum-dependent countries.⁴² The creation of the PF was intended to generate sustainable income for decades after oil and gas reserves run dry, through the investment of oil revenues on the global stock market. However, Charles Scheiner of La’o Hamutuk (Timor-Leste Institute for Development Monitoring and Analysis) argues that

<<http://www.laohamutuk.org/econ/exor/ScheinerFundExorciseCursePrePubEn.pdf>> (Accessed 26 November 2014), p. 5

³⁷ Hughes, p. 149

³⁸ United Nations Development Programme. (2011) Timor-Leste Human Development Report 2011: Managing Natural Resources for Human Development. In *Human Development Report*. New York: UNDP, p. 5

³⁹ Even without access to the oil resources claimed by the Australian government, high global oil prices have generated high returns from current oil reserves.

⁴⁰ Scheiner

⁴¹ Ibid. p. 10-11

⁴² Ibid. p. 1

government overspending beyond the Estimated Sustainable Income (ESI) benchmark has reduced the balance of the PF, limiting the returns on future investments. Rapidly expanding budgets, transfers above ESI, amendments to the Petroleum Fund Law, optimistic price projections and decreased oil production have made the government's ambitions for the PF unlikely.⁴³ La'o Hamutuk has warned that the PF may be depleted by 2025, adding to the imperatives to develop Timor-Leste's non-oil economy, increase domestic revenues, and spend public money wisely. Based on this projection, Timor-Leste may have as little as a decade in which to "use its finite oil resources to underpin long-term prosperity and development."⁴⁴

In the short term – although external actors remain extremely influential in Timor-Leste and are active in various areas of governance, institution building, and development – oil revenues have provided something of a buffer insulating the Timorese state from a greater extreme of aid dependence. Given the rapid depletion of oil reserves, the state has only a limited time frame within which to establish foundations for a more autonomous path of national development, before severe economic hardship drives it into deeper conditions of aid dependence.⁴⁵ Should the government fail to develop the country's non-oil sectors before oil and gas income disappears and the PF is no longer sufficient to cover state expenditure, Timor-Leste will be driven into austerity.⁴⁶

Scheiner contends that the government of Timor-Leste must develop its human resources through investments in education, nutrition, health care and rural water and sanitation. Crucially, it must bolster domestic capacity to meet basic needs and reduce the country's reliance on imports by developing the agricultural sector, which remains the primary source of employment and economic activity for Timorese.⁴⁷ With agriculture comprising such a fundamental component of the local economy, the country's prospects for sustainable development are intricately connected with its course of agricultural policy. The next section discusses the interconnected issues of food security, land, and agricultural policy in Timor-Leste,

⁴³ Ibid. p. 5-6

⁴⁴ Ibid. p. 1

⁴⁵ Already the Timorese government has been forced to submit to deeper relations of aid dependence and external conditionality as a result of dwindling oil reserves, which have required the government to begin a modest programme of international borrowing in order to continue to fund development priorities. See La'o Hamutuk. (2013a) Timor-Leste Is Going into Debt. <<http://www.laohamutuk.org/econ/debt/12Borrowing.htm>> (Accessed 17 December 2014)

⁴⁶ Scheiner, p. 12

⁴⁷ Ibid. p. 12

highlighting the contradictions between internal and external priorities for development in these areas.

Agriculture, Land, and Food Security in Timor-Leste

Food security is one of the most pressing issues facing the majority of the Timorese population. Despite the substantial aid funds that have been allocated to Timor-Leste, the country remains a predominantly subsistence economy. Nationwide, the private sector is only able to provide approximately 400 new jobs per annum,⁴⁸ and in 2005, 33 per cent of the country's population relied on subsistence agriculture alone. Approximately 75 per cent of the population lives in rural areas, where subsistence agriculture is the primary mode of economic activity, and the small paid workforce consists largely of government-employed teachers, medical staff, and department staff.⁴⁹ While a relatively low percentage of arable land (approximately 30 per cent) is currently engaged in agricultural use, the country's unique geographical features – mountainous terrain, erratic rainfall patterns and shallow, low-fertility soil – exacerbate the dangers of food insecurity, making it a priority for successive national governments.⁵⁰

Food shortages have been a common occurrence in Timor-Leste since the post-referendum violence of 1999, which caused significant damage to food sources and infrastructure. Most households experience an annual 'hungry season' during the period prior to harvest. This is more severe in rural areas, where poverty is most pronounced and families typically experience 3.8 months with very limited access to rice or maize – the two staples of the Timorese diet.⁵¹ With a high fertility rate⁵² and an annual population growth rate of approximately 3.2 per cent, Timor-Leste's

⁴⁸ República Democrática de Timor-Leste, p. 109

⁴⁹ World Bank. (2005) Timor Leste - Country Assistance Strategy. Online at <<http://documents.worldbank.org/curated/en/2005/06/6027499/timor-leste-country-assistance-strategy>> (Accessed 1 December 2014), p. 12

⁵⁰ M. Lopes and H. Nesbitt. (2012) Improving Food Security in Timor-Leste with Higher Yield Crop Varieties. In *Australian Agricultural and Resource Economics Society 56th Annual Conference*. Fremantle, Western Australia, p. 1

⁵¹ Ibid. p. 4-5

⁵² In 2003 Timor-Leste had the world's highest fertility rate, at 7.8 births per woman. By 2014 this figure was estimated to have dropped to 5.11 births per woman. See Saikia et al. (2009) The World's Highest Fertility in Asia's Newest Nation: An Investigation into Reproductive Behaviour of Women in Timor-Leste. In *IUSSP International Population Conference*. Marrakech. Online at <<http://iussp2009.princeton.edu/papers/90513>> (Accessed 21 February 2013); Central Intelligence Agency. (n.d.) The World Factbook: Total Fertility Rate. <<https://www.cia.gov/library/publications/the-world-factbook/fields/2127.html>> (Accessed 15 December 2014)

population is expected to double in the next 17 years, which will place greater pressure on the country's already-strained food resources.⁵³ Despite the large proportion of the population engaged in small-scale agriculture and the traditional emphasis on maize and rice production, in 2007 the country imported close to half of its grain consumption requirements.⁵⁴ Food security has been identified as a crucial issue by the national government and donors alike, with the government proposing to ensure national food security by 2020 through a combination of public agricultural investment, private sector development, and joint public-private initiatives.⁵⁵

The issue of food security is intricately connected to a country's trade, agricultural, and resource management policies. The contemporary emphasis on trade liberalization and the aid conditionalities imposed by donors often require the governments of developing countries such as Timor-Leste to pursue export-orientated agricultural policies. However, the production of crops for export generally requires alterations in land usage and farming practices, moving from the small-scale farming of a range of crops produced for a local market, to specialization in large-scale monocultures produced for an external market. While countries may employ a mixture of approaches to achieving food security – seeking to bolster production and develop domestic markets whilst engaging in modest production for export to supplement domestic food markets – countries must ultimately choose whether to emphasize self-sufficiency or trade and specialization.⁵⁶

There is often a fundamental disconnect between the expectations of international donors and financial organizations and local-level priorities and realities within developing countries. As Anderson indicates, “[t]he peoples of small rural economies generally look to food security policies that support both subsistence production and the extension of domestic produce markets ... [while] International banks and governments anxious for hard currency try to promote export-earning production.”⁵⁷ Recognizing the significance of small-scale agriculture for Timorese

⁵³ República Democrática de Timor-Leste, p. 107

⁵⁴ Ministry of Economy and Development. (2012) Sustainable Development in Timor-Leste: National Report to the United Nations Conference on Sustainable Development (UNCSD) on the Run up to Rio+20. Online at <<http://www.laohamutuk.org/econ/Rio20/TLReportRio20.pdf>> (Accessed 23 February 2013), p. 37

⁵⁵ República Democrática de Timor-Leste, p. 107-35

⁵⁶ T. Anderson. (2007) Food Security and Agriculture in the Australia - East Timor Relationship. In *East Timor: Beyond Independence*, edited by Damien Kingsbury and Michael Leach, pp. 179-90. Clayton, Victoria: Monash University Press, p. 180, 182

⁵⁷ Ibid. p. 181

society, the country's authorities have consistently emphasized the importance of consolidating and improving domestic food production. Such a policy was first raised during the transitional period in the form of proposals for using oil funds to generate enhanced domestic rice production and grain storage. These proposals were rejected by the World Bank, which preferred a strategy of export orientation and the creation of a 'buffer fund' to import food during times of severe shortage. The alternative suggested by the World Bank is consistent with the institution's general approach to poverty reduction and food security, which emphasizes private and foreign investment as the basis for economic growth, and the pursuit of food security through commercial development and international trade.⁵⁸

The World Bank's approach to agricultural development is centred on the development of labour-intensive private sector activities in rural areas, emphasizing the importance of agricultural growth to boost employment levels and generate foreign exchange earnings.⁵⁹ The influence of this approach is evident in the development strategies of the Timorese government, which has sought to integrate the preferences of international donors with its own ongoing emphasis on self-sufficiency. The government's most recent Strategic Development Plan demonstrates a strong commitment to boosting small-farming productivity through investments in infrastructure and machinery and the provision of subsidized fertilizers and pesticides, in an attempt to achieve surplus domestic food production by 2020.⁶⁰ The plan also advocates the development of the cash crop sector to create economic growth and rural employment. Suggested export crops include coffee, candlenut, and coconut – all popular locally produced crops from which the government hopes to maximize export revenue, adding value in-country by fostering improved technological practices and extending infrastructural support.⁶¹

However, there are dangers for Timor-Leste in pursuing such a 'split' approach. By attempting to accommodate international demands for trade liberalization and courting foreign investment as a source of hard currency, the government risks exposing domestic agricultural production to the harmful effects of fluctuating international markets. Technological and infrastructural advantages in developed countries and in particular the agricultural subsidies maintained by the

⁵⁸ Ibid. p. 184-85, 188-89

⁵⁹ World Bank (2005), p. 14, 37

⁶⁰ República Democrática de Timor-Leste, p. 118-35

⁶¹ Ibid. p. 126-28

governments of the United States and European Union (in defiance of the ‘free trade policies they so diligently propagate elsewhere) have wreaked a devastating effect on domestic production in developing countries, which are generally unable to compete with the low prices of international imports.⁶² Cheap food imports force down local prices, undermining the potential returns for domestic production and ultimately rendering the labour-intensive work of planting and harvesting unremunerative. This process triggers increasing import dependence, a trend that has forced most developing countries into becoming net food importers. The impact on societies in these countries is nothing short of devastating – particularly in rural areas. Traditional livelihoods based on agricultural production are destroyed, while other sectors are unable to absorb workers displaced from traditional farming, resulting in high levels of unemployment and dispossession that pose severe social, economic, and environmental challenges for governments.⁶³

The potential impacts of such import dependence in Timor-Leste would be profound. Disruptions to rural agricultural production would likely exacerbate national food shortages, precipitate a loss of rural livelihoods and an attendant rise in poverty, and trigger large and destabilizing urban migration movements. Recognizing the central importance of small-scale farming to Timor-Leste’s social and economic structures, the national government must find ways of protecting domestic agricultural production despite pressure from external donors for trade liberalization. This is imperative in order to prevent food insecurity and the immense socio-economic upheaval that would necessarily accompany attempts to effect large-scale changes in agricultural production.

The government’s attempts to negotiate a middle ground and promote a level of crop production for export also has important implications in terms of land ownership and resource management. Large tracts of land must be mobilized to support large-scale production, necessitating the disruption of ‘inefficient’ small-scale agricultural patterns in these areas.⁶⁴ In the case of Timor-Leste – where the overwhelming majority of the population is engaged in subsistence farming and the country’s geographical features limit the availability of land for large-scale

⁶² Anderson (2007), p. 180, 186-87

⁶³ T. A. Wise. (2009) Promise or Pitfall? The Limited Gains from Agricultural Trade Liberalisation for Developing Countries. *The Journal of Peasant Studies* 36(4):855-70, p. 867-68
Anderson (2007), p. 180-87

⁶⁴ T. Anderson. (2010a) 'Land Reform' in Timor Leste? Why the Constitution Is Worth Defending. In *Understanding Timor-Leste Conference*. Melbourne: Swinburne Press, p. 215

commercial production – the displacement caused by the commercialization of customary lands would be tremendous, severely undermining social relations which are closely linked to customary patterns of land ownership.

While small farming does not generate significant export earnings, Anderson argues that there are a number of social benefits associated with subsistence-based farming communities. Small-scale agriculture provides widespread employment and a form of social security, providing an ongoing livelihood even where the formal economy fails. The greater diversity of crops and the methods used in small-scale farming also prove more sustainable, posing less damage to soil and water systems.⁶⁵ Such ‘positive externalities’ cannot be quantified in market terms, which view agriculture – like all markets – in terms of productivity and competitiveness. Agricultural liberalization, by contrast, involves the establishment of large monocultures using chemical-intensive methods in order to maximize productivity, provoking a number of ecological problems including soil erosion and degradation, and disruptions to river and marine systems from silt and fertilizer outflows.⁶⁶ Given the country’s steep terrain and shallow soil, the potential environmental costs of large monocultures in Timor-Leste are severe. The country also has rich coastal marine life, an asset that must be protected from toxic waste if the government is to succeed in capturing the economic opportunities from fisheries.⁶⁷

The World Bank *World Development Report 2008: Agriculture for Development* acknowledges the importance of small-scale agriculture for poverty reduction, but does not move beyond the dominant export-oriented approach, nor does it recognize the diverse social, economic, cultural, and environmental benefits of small-scale production. Reflecting the contemporary international emphasis on economic growth and private sector-driven development, the report echoes orthodox prescriptions for greater agricultural liberalization.⁶⁸

Critics argue that the projected gains of agricultural liberalization for developing countries are extremely small.⁶⁹ Very few developing countries are able to compete on international markets, a reality reflected in the World Bank’s own predictions that project high-income countries to capture nearly 90 per cent of total

⁶⁵ Ibid. p. 216

⁶⁶ Ibid. p. 216

⁶⁷ Ibid.

⁶⁸ Wise, p. 856

⁶⁹ See, for example, Anderson (2007); Wise

gains from agricultural liberalization for the year 2015.⁷⁰ Countries that can compete, such as Brazil and Argentina, are characterized by high levels of industrialization, modernized agricultural techniques, highly developed infrastructure, and vast quantities of highly fertile land for cultivation.⁷¹ According to Tim Wise, the returns for developing countries amount to less than \$2 per person per year.⁷² Small-scale farmers stand to benefit the least from liberalization, with large-scale industrial producers positioned to reap maximal gains from export markets.⁷³ Such minimal gains hardly seem to justify the tremendous costs associated with agricultural liberalization, particularly in light of Timor-Leste's small-scale, subsistence-based agricultural profile.

The government's Strategic Development Plan indicates a commitment to the preservation of Timor-Leste's small-scale agricultural structure, but seeks to boost the productivity of this sector by commercialization. The process of agricultural commercialization – both in relation to smallholder farming and larger, export-oriented production – will require fundamental changes in patterns of land tenure in Timor-Leste.⁷⁴ The Constitution states that only 'natural persons' can own land in Timor-Leste – a provision that prohibits corporations and foreigners from owning land.⁷⁵ However, a draft Transitional Land Law approved in 2010 effectively circumvents this restriction by normalizing medium to long-term leases, allowing for

⁷⁰ Wise, p. 857

⁷¹ Ibid. 858, 860

⁷² Ibid. p. 857

⁷³ Ibid. p. 863

⁷⁴ East Timor has experienced the imposition of multiple land tenure systems as a result of foreign intervention. The Portuguese and Indonesian administrations both implemented their own systems of land registration and issued land titles to their supporters. Furthermore, Indonesian policies of 'transmigration' and 'translocation' caused massive population displacement, as the occupiers sought to extend control throughout the country and contain the resistance movement. Most land records were destroyed during the conflict in 1999, in what appears to have been a deliberate Indonesian policy targeting all land titles offices. As a result of these multiple and overlapping patterns of land tenure and registration, five categories of land claimants now exist. UNTAET did not establish a land claims commission or seek to resolve the issue of land ownership, recognizing the potential for new legislation to trigger land conflict. Thus unresolved land issues continued to cause tension in the independence era, contributing to patterns of violence in 2006 in which gangs targeted the homes of 'easterners' who had occupied homes abandoned during the 1999 crisis.

See Nixon, p. 137; C. Williams. (2009) Reaching Back to Move Forward: Using Adverse Possession to Resolve Land Conflicts in Timor-Leste. *Pacific Rim Law & Policy Journal* 18(3):575-607, p. 576, 580; D. Fitzpatrick. (2001) Land Issues in a Newly Independent East Timor. Canberra: Department of the Parliamentary Library. Online at <http://www.apph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp0001/01RP21> (10 December 2014), p. 1; D. Fitzpatrick and S. Barnes. (2010) The Relative Resilience of Property: First Possession and Order without Law in East Timor. *Law & Society Review* 44(2):205-38, p. 211

⁷⁵ Anderson (2010a), p. 213

the regularization of leases of large tracts of land to foreign agribusinesses. The draft law also affords the state authority to claim ‘unused’ land, which may then be leased to private companies.⁷⁶ Currently these provisions largely exclude rural customary land, but external pressure is mounting for widespread land ‘modernization’ that will allow private companies greater access to rural land. Commentators and lending institutions have consistently called for the clarification and strengthening of property rights, and the privatization of land in order to stimulate greater agricultural efficiency.⁷⁷

Arguments for ‘land reform’ in Timor-Leste are driven by a neo-liberal rationale of land commercialization, which frames agricultural development in terms of the commodification of land, large monocultures and agricultural liberalization.⁷⁸ The neo-liberal development model posits trade liberalization as a solution to food insecurity, based on the assumption that trade liberalization leads to economic growth and growth leads to poverty reduction, which in turn resolves food security issues.⁷⁹ Aid agencies such as USAID, AUSAID, and the World Bank in particular advocate land and agricultural ‘modernization’ in Timor-Leste. The liberal economic attitudes to land, agriculture, and food security pushed by these organizations are based on the mobilization of land for large-scale production, in order to generate sufficient income on international markets to purchase food.⁸⁰ This framework conceives of agricultural and food policy in purely market terms, placing the needs of subsistence and small farming communities second to the dictates of market efficiency and an export-oriented development model that emphasizes economic growth over sustainable development.

⁷⁶ La’o Hamutuk. (19 May 2010) Who Will Get Land under the Draft Transitional Land Law? <<http://www.laohamutuk.org/Agri/land/10WhoGetsLandEn.htm>> (Accessed 23 February 2013)

Anderson (2010a), p. 214

⁷⁷ The United States Agency for International Development (USAID) has been closely involved in land registration since late 2007, when it established the *Ita Nia Rai* (meaning ‘Our Land’) project to register land claims, engage in dispute resolution over competing claims to land, support the formulation of land policy and the implementation of regulations, provide support for a National Land Commission (currently no such commission exists), and disseminate public information and awareness regarding land issues.

See La’o Hamutuk. (February 2010) Land Justice in Timor-Leste. In *The La’o Hamutuk Bulletin* 11(1-2). Online at <<http://www.laohamutuk.org/Bulletin/2010/Feb/bulletinv11n1-2.html>> (Accessed 23 February 2013); United States Agency for International Development. (n.d.) USAID Country Profile Timor-Leste: Property Rights and Resource Governance. USAID. Online at <http://usaidlandtenure.net/sites/default/files/country-profiles/full-reports/USAID_Land_Tenure_Timor-Leste_Profile.pdf> (Accessed 23 February 2013)

⁷⁸ Anderson (2010a), p. 213

⁷⁹ Anderson (2007), p. 186

⁸⁰ Anderson (2010a), p. 215

In Timor-Leste, where the majority of land remains under customary ownership, the pursuit of an export-oriented agricultural model requires the ‘rationalization’ of land – the replacement of non-market mechanisms of land tenure and agricultural organization with market ones.⁸¹ In order to establish market conditions, traditional arrangements of land tenure must be reformed and uncertainties in land title resolved, to be replaced by strong titles, land registration, the establishment of land markets, and opening opportunities for foreign investment.⁸²

The relationship between human communities and the natural environment in Timor-Leste has traditionally been regulated by customary systems of resource management, which have contributed to the protection of sensitive ecological resources.⁸³ Despite disruptions to traditional ownership arrangements due to decades of conflict, displacement and resettlement, customary structures remain dominant in rural areas, where land ownership is determined by clan-inherited usufruct rights. Customary prohibitions – known as *tara bandu* – have traditionally governed resource use, establishing systems of control over the harvesting of trees and forest products and the maintenance of water areas.⁸⁴ Despite renewed efforts by communities across the country to extend customary resource protections, recent moves towards land reform pose a considerable risk to the continuity of customary ownership and tenure arrangements. Land commodification associated with agricultural development requires the alienation of land from such systems of social organization, and the creation of markets to govern land ownership and real-estate transactions.⁸⁵

This process of land rationalization is an essential feature of the construction of market economies. Despite claims by neo-liberal proponents, the history of the development of liberal economic and political systems demonstrates that market societies did not arise through any natural, spontaneous process, but as a result of deliberate state intervention. As Karl Polanyi has argued, markets are neither ‘self-regulating’, nor do they constitute a natural state for societies; in order for markets to succeed, all the factors of production – including land, labour, and capital itself –

⁸¹ Ibid.

⁸² Ibid. p. 213

⁸³ C. D'Andrea. (2003) The Customary Use of Natural Resources in Timor-Leste. In *Land Policy Administration for pro-Poor Rural Growth*. Dili: Oxfam, in collaboration with Deutsche Gesellschaft Fur Technische Zusammenarbeit (GTZ, German Technical Cooperation) and the Direcçao de Terras e Propriedades (DTP, Directorate of Land and Property) of Timor Leste.

⁸⁴ Ibid. p. 4

⁸⁵ Ibid. p. 4; Anderson (2010a)

must be subjected to market organization. Market values must be assigned to all the elements of human society involved in market production, necessitating dramatic state intervention to break up previous systems of social organization and establish market conditions. Land, as an essential element of economic production, must therefore be detached from non-market forms of social organization – such as kinship and custom – and reconstituted in commercial terms.⁸⁶

Where the global liberal project encounters systems of land tenure that do not correspond to liberal economic principles, these systems must be restructured according to market ‘laws’. In previous eras this process has been enacted by states within their own territories – as in eighteenth century England – or by imperial powers as part of the colonial project of land expropriation for resource exploitation in regions of the ‘periphery’.⁸⁷ The expansion of agricultural liberalization continues in the non-market frontiers of developing countries, where new means of coercion and control have been implemented in order to ensure state compliance with the dictates of international markets. In the contemporary period of neo-liberal state-building and development, states in the global South have been enlisted as agents of this process of global liberal reconstruction.

Whether the government will succeed in achieving food security by 2020 despite the constraints of aid dependence remains to be seen. Indecisive rhetoric and efforts to appease both an international and a domestic constituency through a middle ground approach to agricultural development will not result in greater food security nationwide, nor improve livelihoods for Timor-Leste’s rural population. Diversification, rather than agricultural specialization, will deliver greater food security for Timor-Leste.⁸⁸ Building on the country’s pre-existing agricultural profile by prioritizing small-scale domestic agricultural production for local markets will safeguard the livelihoods of the rural majority and reduce levels of import dependence. Such a policy will ultimately reduce the country’s aid dependence, ensuring basic needs are met even in times of national financial hardship and minimizing the need for the government to submit to additional forms of external regulation as a condition for financial assistance.⁸⁹

⁸⁶ Polanyi

⁸⁷ Ibid. p. 187-190

⁸⁸ Anderson (2010a), p. 215

⁸⁹ Ibid; Anderson (2007)

Aid Dependence and Prospects for Development in Timor-Leste

Aid dependence in Timor-Leste has been magnified by a number of factors. As a small, geographically isolated territory, with a subsistence profile and consistently low human and economic development indicators qualifying Timor as the poorest province of Indonesia, economic shocks associated with the conflict in 1999 and subsequent separation from the Indonesian economy have been particularly devastating. Economic conditions in the late 1990s were crippling; the effects of the Southeast Asian financial crisis of 1997-8, followed by the destruction of 1999, the severing of the Timorese economy from Indonesian subsidies and markets, and the conversion of the Timorese currency from the rupiah to the dollar exacerbated the country's dependence on external financial assistance.⁹⁰ Donor funding comprised approximately half of the Timorese government budget in the first years of independence, with aid constituting around 60 per cent of GDP. In 2001, the size of the country's real economy amounted to only 88 per cent of its size in 1997. The economy contracted further following independence – as a result of diminishing donor interest and the departure of UNTAET – and in response to the violence of 2006.⁹¹

High levels of capital investment associated with the international presence in East Timor in 1999-2002 left little sustainable economic impact. A large proportion of the capital injected into the country was repatriated; donor agencies tendered for international contracts, directing funds towards reconstruction projects that employed foreign workers, companies, and supplies. The influx of foreign currency brought into the country by international personnel contributed to economic distortions, fuelling unsustainable urban expansion in Dili and a subsequent crisis in the urban economy after UNTAET's departure. Local spending by international employees was concentrated towards a Dili-based service industry that sprung up to cater to the external clientele. Hotels, restaurants, and supermarkets patronized by UNTAET personnel were foreign owned, importing their products from abroad and repatriating profits. As a result, only a very small proportion of the UNTAET budget entered the local economy, and what was invested locally was predominantly spent in Dili. While it remained in the country, this unbalanced investment generated some degree of

⁹⁰ Hughes, p. 139-41

⁹¹ Ibid. p. 139-41

economic activity. However, the UNTAET withdrawal and shifting of donor priorities elsewhere facilitated a dramatic economic downturn and left behind a minimal amount of sustainable economic infrastructure.⁹²

The dire situation of the Timorese economy following independence heightened the new country's petroleum dependence. Given the multiple challenges facing the country as a small developing nation, struggling to cope with the social and economic effects of a devastating conflict, it is perhaps unsurprising that the economy of Timor-Leste has come to reflect in many ways the predictions of 'resource curse' theorists. Despite the government's concern to assuage international reservations through the establishment of a PF to promote accountability and sustainability in the management of petroleum income, the short-term profitability of the oil and gas sector has contributed to a highly unbalanced economy and unsustainable patterns of national development.⁹³ In 2012, the Timorese economy appeared to be growing at 'double-digit rates', with the non-oil economy contributing approximately 22 per cent of GDP. However, roughly half of this non-oil GDP is driven by state spending towards public administration, procurement, and infrastructure construction. As government revenue is currently derived almost entirely from the petroleum sector, this income will disappear when oil and gas reserves are exhausted – which is expected to occur by 2020.⁹⁴

High global oil prices in recent years have generated increased oil revenues in the short term and dramatically elevated GDP, allowing Timor-Leste to achieve middle-income status in 2011.⁹⁵ However, the country's median status does not accurately represent the state of the Timorese economy or the circumstances of the majority of the country's population. The 2014 Human Development Index (HDI) ranks Timor-Leste at 128 out of 187 countries. Timor-Leste's HDI value increased by 33.4 per cent between 2000 and 2013, placing it above the average of many other countries within the medium human development group.⁹⁶ However, HDI is an *average measure* of calculating basic human development outcomes in a given country, and thus masks inequalities in the distribution of human development

⁹² Ibid. p. 141

⁹³ Scheiner

⁹⁴ Ibid. p. 1-2

⁹⁵ World Bank. (2014) Timor-Leste Overview. <<http://www.worldbank.org/en/country/timor-leste/overview>> (Accessed 2 December 2014)

⁹⁶ United Nations Development Programme. (2014) Timor-Leste Human Development Report 2014: Sustaining Human Progress. In *Human Development Report*. New York: UNDP, p. 2-3

throughout populations. Accounting for inequality results in a 30.7 per cent reduction of Timor-Leste's HDI value, recognizing to some extent the disparities between GDP and actual living conditions as experienced by the majority of the Timorese population.⁹⁷

The HDI represents a human development approach, which avoids the traditional focus on narrow economic indicators such as GDP by accounting for a range of social indicators, including gender equality, access to education, and infant mortality. However, despite this social emphasis, economic data sets such as the HDI cannot adequately capture socio-economic realities and inequalities in target countries. In Timor-Leste, where the high international presence has magnified the urban-rural divide and oil and gas revenues create a skewed picture of the economy as a whole, such measures are particularly misleading.⁹⁸

Social conditions experienced by the majority of the Timorese population belie the country's middle-income status and the optimism of government officials. In November 2011, the UN Special Rapporteur on extreme poverty and human rights reported after her official mission in Timor-Leste:

[G]rowth and development has not translated into sustained improvements in standards of living, livelihoods and job creation. Poverty remains pervasive and widespread. Around 41 per cent of the population lives on less than a dollar per day. Approximately 58 per cent of the population suffers from chronic malnutrition, while an additional 19 per cent from acute malnutrition. Unemployment and employment vulnerability is estimated to be as high as 70 per cent. In a country with a young population, where more than half of all people are less than 19 years old, 90 per cent of those between 15 and 34 years old cannot find work.⁹⁹

Despite the Strategic Development Plan's emphases on participation and equity in issues such as education, gender, and rural development, in practice government support for key aspects of human development such as health and education has been disappointing.¹⁰⁰

The petroleum sector is the backbone of the economy, yet generates virtually

⁹⁷ Ibid. p. 3-4

⁹⁸ M. Sepúlveda. (2011) Speech by Special Rapporteur on Extreme Poverty and Human Rights - Mission to Timor-Leste from 13 to 18 November 2011. In *Preliminary Observations and Recommendations*: United Nations Human Rights.

⁹⁹ Ibid.

¹⁰⁰ T. Anderson. (2010b) The Petroleum Fund and Development Strategy in Timor Leste. Dili: Timor Leste's Petroleum Fund Consultative Council, p. 43

no on-shore employment; its local economic impact is expressed entirely through government spending.¹⁰¹ Despite government intentions to invest oil revenues in the wider economy in order to boost living standards and non-oil economic activity,¹⁰² public spending on productive sectors of the economy – agriculture and manufacturing – constitutes only 4 per cent of GDP.¹⁰³ Whilst the government has gradually increased public spending on health and education, the amount of public investment in these key human resources amounts to 40 per cent less of its budget than that of ‘well-managed’ developing countries.¹⁰⁴ Government initiatives such as food subsidies and job creation through publicly funded programmes of labour-intensive employment in infrastructural development are believed to have had positive impacts in terms of human development,¹⁰⁵ yet significant long term challenges remain which must be addressed through concerted policy efforts that prioritize domestic imperatives and are suited to local conditions.

Currently, less than half of state expenditure enters the local economy. Together with construction, the costs of public administration dominates state expenditure, relatively little of which is invested in local productive activity.¹⁰⁶ In the absence of convenient local products, the country’s small Dili-based elite looks to foreign markets to supply goods and services. External markets supply a range of products for the Timorese middle and upper classes, including chicken, rice, noodles, eggs, beer, milk, candles, and cigarettes. Despite official priorities of self-sufficiency and food security as outlined in government development plans, economic sovereignty and long term sustainability appear to carry little bearing in the spending habits of the country’s small middle and upper classes. Such incongruities between official ‘policy’ and individual practice have resulted in conditions of import dependency. The consequences of such unsustainable practices have been deferred in the short term by the inflow of oil and gas revenues. When these revenues are exhausted, however, the resulting cash shortage will render imports unaffordable. Social immiseration will ensue if local food production is insufficient to prop up

¹⁰¹ Scheiner, p. 4

¹⁰² This is a common sentiment in official government communications. See, for example, República Democrática de Timor-Leste

¹⁰³ Scheiner, p. 2

¹⁰⁴ Ibid. p. 7

¹⁰⁵ UNDP (2011), p. 5

¹⁰⁶ Scheiner, p. 2-3

domestic consumption by this time.¹⁰⁷

As the primary source of economic activity for the majority of the population, agricultural policy will play a defining role in the future of the Timorese economy. Agriculture sustains most of the Timorese population, yet in 2014, the state budget allocated only 2 per cent to the agricultural sector.¹⁰⁸ To date, the Timorese government has demonstrated elements of both a liberal and an economic nationalist approach to agricultural policy. Moves to lease large tracts of land to foreign agribusinesses and the introduction of radical tax cuts for investors demonstrate the influence of liberal economic ideas and external commercial pressures on development policy, undermining the government's purported commitment to agricultural self-sufficiency.¹⁰⁹

The government of Timor-Leste must choose whether to follow external preferences that push for agricultural specialization and export orientation, or to prioritize a food security and agricultural development strategy that emphasizes local production.¹¹⁰ Quite aside from questions regarding the suitability of the country to such large-scale production or the potential negative impacts of export orientation for local food security and social and environmental well being, Anderson argues that “export orientation in agriculture assumes that the economy has no better export options”.¹¹¹ Despite troubling forecasts regarding the sustainability of oil revenues and the failure to date to adequately invest oil income into non-oil economic sectors, the government's management of its petroleum resources compares favourably with the experiences of other petroleum-dependent countries.¹¹² Although unlikely to generate state revenue for decades to come as envisioned, the existence of the PF provides the government with resources for the development of the agricultural sector, *potentially* allowing the state greater freedom to determine economic policy in this area without the conditionalities associated with international loans.

Since independence, international prescriptions associated with neo-liberal governance have significantly curtailed state authority in terms of social and economic policy. Furthermore, unequal relations of power between Timor-Leste and external agencies and national and commercial interests have dramatically reduced the

¹⁰⁷ Ibid. p. 3

¹⁰⁸ Ibid. p. 7

¹⁰⁹ Anderson (2010b), p. 43

¹¹⁰ Anderson (2007), p. 182

¹¹¹ Ibid. p. 182

¹¹² UNDP (2011), p. 5

government's access to potential petroleum resources. However, despite poor living conditions, unbalanced national development, and ongoing structures of external regulation, the country's oil wealth and relative lack of external debt¹¹³ offers the government an opportunity to carve out a greater sphere for government action. Whilst certainly remaining effective, the influence of global structures of neo-liberal governance may be slightly less felt whilst the petroleum sector continues to act as a buffer for national development.

Conclusion

As the youngest country in Asia, with high birthrates, low social development indicators, and an unbalanced economy carried by unsustainable oil revenues, the challenges facing Timor-Leste are tremendous. This chapter has focused primarily on issues relating to petroleum and agriculture, highlighting the impact of current policies in these areas and the imperative to take decisive action to harness the potential of these sectors to promote the interests of the Timorese people. Other significant aspects of social and economic policy that have not received attention here – such as welfare, healthcare, education, labour regulation, and taxation – will also play a critical role in national development. Petroleum and agriculture represent two primary areas of economic policy that together generate crucial state income, employment, and socio-economic security for Timorese people. However, health and education policy and welfare provisions are key areas of concern for the local population – concerns which must be prioritized if the government is to succeed in boosting living conditions for the majority of its citizens. These public investments in human resources are also essential in laying the foundation for a future of sustainable and equitable development.

Carmeneza dos Santos Monteiro argues that the focus on governance and institution building in Timor-Leste has come at the expense of other areas of development, diverting government attention from pressing issues of socio-economic development and equality.¹¹⁴ Whilst successive post-independence governments have

¹¹³ The government of Timor-Leste has sought to reduce conditions of aid dependence by avoiding external debt. However, declining oil revenues forced the government to commence a modest programme of external borrowing in 2012, in order to finance development initiatives. See La'o Hamutuk (2013a)

¹¹⁴ C. Monteiro. (2010) A Reflection on Ten Years of Nation- and State-Building in Timor-Leste: Conference Report. In *Nation-building across the Urban and Rural in Timor-Leste*, pp. 38-41. Dili: RMIT University, p. 41

expressed a strong commitment to addressing the social and economic needs of their citizenry, conditions of aid dependence within a highly regulated framework of governance have had a profoundly disempowering effect on the potential for autonomous development policy.¹¹⁵ Aid dependence requires states to orient policies towards the wishes of an external constituency, creating a legitimacy dilemma between the demands of international donors and interveners, and the needs and expectations of the domestic population. As previous chapters have demonstrated, state institutions in Timor-Leste were established with an unprecedented level of external influence, and remain subject to ongoing state-building initiatives which frame governance as a matter of adherence to neo-liberal prescriptions.

These neo-liberal assumptions condition all aspects of the relationship between the Timorese state and the international community. The influence of economic liberal ideas is evident in conflicting attitudes towards agriculture, where pressure for liberalization and export orientation from the international community is at odds with the country's subsistence profile and the interests of the country's large rural majority. The Strategic Development Plan demonstrates the government's attempts to reconcile these competing approaches.

The government has sought to maximize oil revenues in order to generate sustainable economic development, but has been unable to harness this oil wealth to build momentum in other areas of the economy. As a result, the state has been "unable to respond to the needs of the poor and marginalized people"¹¹⁶ – a failure which has fuelled popular resentment, and at times carried over into violent confrontations as witnessed in the 2006 conflict. If it is to generate internal legitimacy, the state must prioritize the needs and realities of its own people as it seeks to lay the foundations for long term development, matching social and economic policies to the cultural, environmental, economic, and social context of Timor-Leste, rather than to the demands of international actors.

¹¹⁵ Hughes

¹¹⁶ Monteiro, p. 41

CONCLUSION

Since the 1990s, state-building has emerged as a strategic alignment of the development and security communities, appearing to offer a solution to multiple crises of poverty, underdevelopment, internal conflict, and wider manifestations of insecurity. With the problematization of weak statehood as the primary source of such issues, the state-building project envisions a central role for strong, reconstituted states in efforts to implement conditions for the liberal peace in societies of the global South. States are to be reformed as partners and facilitators of liberal peace-building; their function is conceived of primarily in terms of the management of liberal transitions within a domestic context. Within a framework of global liberal governance, states are to assist in the establishment and maintenance of the conditions deemed necessary for liberal, market relations at the local level. In implementing and maintaining these liberal systems of organization in non-liberal societies, the cooperation of states is essential for the extension of liberal governance throughout the globe.

A current trend that has not received attention in this thesis yet deserves mention is the concept of ‘resilience’, which has achieved prominence in international state-building and development circles in recent years. Resilience discourses have emerged out of disillusionment with liberal internationalism, and in particular the failure of liberal peace operations to achieve their goals of peace, development, and democracy through the construction of liberal institutions in subject societies.¹

The failure of international state-building operations to construct self-sustaining liberal relations in subject states through the export of liberal institutions has led to a shift in attention towards the societal sphere. Whereas state-building operations have focused primarily on the task of liberal state engineering as a top-down approach towards the dissemination of liberal relations throughout society, the failure of this approach to regularize wider liberal systems of organization in non-liberal societies has necessitated moves to engage more directly with populations themselves.² Resilience can thus be understood as an ‘internalizing’ discourse which shifts responsibility for the failure of state-building operations onto local

¹ D. Chandler. (2013) International Statebuilding and the Ideology of Resilience. *Politics* 33(4):276-86.

² Ibid.

communities.³ This shift away from a state-based approach towards a ‘society-centred’ approach constitutes populations themselves as a political problem.⁴ Elements of this shifting societal focus have been alluded to at times throughout this thesis; however, any comprehensive discussion of resilience discourse falls beyond the scope of this study, which has focused on the implications of processes of state-building and neo-liberal development for statehood, sovereignty, and democracy in the South.

Discourses of resilience can be understood as an extension of the international state-building project. Given the failure of state-building operations to successfully implement liberal social transformations through the reconstitution of state institutions alone, resilience discourse has emerged as a further innovation in the liberal peace project, legitimizing a range of external interventions into the societal sphere.⁵ Far from representing a move towards allowing subject societies greater autonomy in processes of development and state formation, ‘bottom-up’ discourses of resilience facilitate more extensive intrusions into the workings of non-liberal societies in the global South in pursuit of liberal formations of peace and development. Furthermore, Chandler argues that interventionist resilience discourses have “facilitated the evasion of Western responsibility for the outcomes of statebuilding interventions through problematising local practices and understandings as productive of risks and threats and as barriers to liberal progress.”⁶

Elements of this internalizing social discourse can be discerned in relation to the process of state-building in Timor-Leste. However, this thesis has been primarily concerned with the interconnection between processes of state-building and neo-liberal development, which aspire to a wide-ranging reformation of political, social, and economic relations in subject states through the construction of liberal state institutions and subordination of social and economic policy to external networks of global governance. The process of state-building in Timor-Leste has been characterized by unprecedented levels of international control. State institutions were created during a period of official international administration, implemented by international agents and technocrats in accordance with a liberal template of

³ M. Duffield. (2012) Challenging Environments: Danger, Resilience and the Aid Industry. *Security Dialogue* 43(5):475-92, p. 476-77

Chandler (2013), p. 279

⁴ Chandler (2013), p. 280

⁵ Ibid. p. 284

⁶ Ibid. p. 276

statehood. Timorese participation in this process was minimal. As a result, the process of state formation in Timor-Leste has more closely resembled an experiment in liberal state transplantation than any meaningful attempt to support the establishment of locally informed institutions based on the Timorese historical, social, cultural, and political context.

The post-independence Timorese government inherited an ‘insulated’ state, one which stood apart from its domestic context rather than embodying a collective expression of Timorese society. Neo-liberal state-building facilitates the replacement of the state-society social contract with a ‘governance’ contract, which requires the constant orientation of domestic policy towards an external audience. The institutionalization of governance practice prescribes a narrow framework for social and economic policy, which is reinforced through systems of neo-liberal discipline and international surveillance that place considerable limits on the potential for autonomous decision-making. Like other states subject to state-building interventions, the state in Timor-Leste has been constituted through conditions of aid dependence, forcing successive governments to seek the approval of an external constituency in the process of national development and the formulation of social and economic policies.

The state-building project exposes states to a legitimacy dilemma, placing governments under considerable pressure as they seek to navigate a course between the obligations of their domestic constituencies and the expectations of external donors. The Timorese government has often been required to prioritize international prescriptions over local demands, resulting in a loss of popular legitimacy. The government’s inability to respond in a satisfactory manner to the needs of its own people has served to distance it from the Timorese population, alienating many elements of society and fuelling public dissatisfaction with the experience of independent statehood.

The form of liberal statehood being advocated through state-building programmes constitutes a dramatic reformulation of the concept of sovereignty. Subject states are to be embedded within overlapping structures of global governance, and the role of the state redefined as a national intermediary between international liberal structures and domestic societies. This reconstitution of sovereign authority has important implications for societies in the global South. The reframing of national sovereignty as a result of state-building and neo-liberal development practice limits the potential for alternative action beyond a prescribed liberal framework. Through

the implementation of governance reforms and ongoing state-building initiatives, key aspects of social and economic policy are removed from the sphere of domestic political control and replaced by the bureaucratic, 'apolitical' exercise of good governance practice.

This reformulation of sovereignty poses a number of questions regarding the potential for authentic democracy in the state-building context, where intrusive external involvement has brought about the inversion of the sovereign state – the creation of states that act to channel inward an externally prescribed agenda. State-building practice subordinates the democratic process to the dictates of 'good governance', limiting the substance of socio-economic policy by casting political issues as technical matters beyond the remit of democratic contestation. Thus liberal state-building and development practice extends the promise of democracy to populations in the global South, whilst simultaneously stripping it of its content in terms of participation, equity, and social justice.

The liberal vision for peaceful relations is predicated on certain assumptions regarding social, economic, and political organization. In particular, markets are upheld as the optimal organizing structures for peaceful social relations and economic development. The pursuit of market-led growth strategies is thus expected to offer a solution to conditions of poverty, underdevelopment, and conflict. State-building programmes require states to act as 'handmaidens' of the market – fostering the necessary institutional conditions for the functioning of markets, and pursuing internationally approved policies of market-led development. Active state intervention in the economy beyond this managerial role is strongly discouraged. Efforts to bolster economic development and social and economic security through a state-based developmental approach and redistributive policies are strongly discouraged by international agents, and generally prevented through external pressure and mechanisms of conditionality associated with aid dependence.

In Timor-Leste, pressure to adhere to market-based prescriptions for national development has contributed to social immiseration and mounting discontent. Demands for the state to take decisive action to improve social conditions and prioritize issues of distribution and inequality have not been met. The government has been encouraged to focus its attentions on facilitating private sector growth as a solution to the country's economic woes. Suggestions to establish state enterprises to generate local employment and food production and help relieve the suffering of the

Timorese population have been eschewed by donors, in favour of the apparent long-term benefits of a strategy of market-led development.⁷ By 2006, a combination of economic contraction, austere budgets, distant and ineffective state administration, and a refusal by donors and international institutions to countenance deviations from market-based policies in the early years of independence had contributed to a situation of “sclerosis at the center and penury in the villages”.⁸

In April 2006 – after four years of lacklustre economic performance, social deprivation, and mounting public discontent – Prime Minister Mari Alkatiri declared the government’s intention to pursue a new development trajectory, by using state resources to provide a much-needed boost to the country’s struggling economy.⁹ Alkatiri claimed that conditions of extreme poverty and regional asymmetry left the government with no choice but to use the state to drive the Timorese economy:

In order to contribute to reducing the number of poor people in Timor-Leste and to achieving the Millennium Development Goals in 2015, and the National Development goals in 2020, there is only one way: due to the still weak condition of the Timorese private economy, it will have to be the State to boost the economy – create employment, promote the construction of the infrastructures that the people continue to demand in good right (roads, bridges, health centres, schools, electric power, drinkable water), and enable the many citizens who make their living off subsistence farming to go to the nearest market sell their surplus and have a few dollars in their pockets. ... It is decision time, and the decision has been made: we will have the State make our economy grow.¹⁰

However, the decision came too late, with events already in motion that would result in political breakdown and the Prime Minister’s forced resignation in June 2006. The government had failed to deliver on the promise of democratic development, or to distribute the anticipated benefits of independence to a desperate and economically disenfranchised population. Widespread disenchantment contributed to the escalation of conflict in 2006, with other disaffected groups joining protests in Dili to add their grievances to the dispute between the armed forces.

⁷ Hughes, p. 151

⁸ Ibid. p. 151

⁹ M. Alkatiri. (4 April 2006) Decision Time. Address at the Opening Session of the Timor-Leste Development Partners Meeting. Dili: Democratic Republic of Timor-Leste Office of the Prime Minister.

¹⁰ Ibid. p. 4

The government's inability to generate popular legitimacy prior to 2006 sprung in large measure from conditions of aid dependence, which prevented it from fulfilling the crucial role of political management. The insulated nature of state institutions and the ongoing exercise of disciplinary neo-liberal governance had created a situation in which successive governments had proven more responsive to external pressures than to their domestic constituency. In the absence of comprehensive state programmes to improve the socio-economic conditions of the Timorese population, increasing competition for scarce resources has contributed to social and political instability – most notably in the riots of 2006, but also in less dramatic expressions of social unrest, such as the country's high levels of youth gangs and gang-related activities.¹¹

To date, the experience of democracy in Timor-Leste has been profoundly disempowering. The task of fostering economic development, social cohesion and generating tangible socio-economic benefits for the Timorese population will require the government to carve out a greater degree of autonomy over key issues of national development than it has done thus far. The harnessing of petroleum resources towards a more equitable trajectory of economic development may offer a step towards this goal. However, unsustainable dependence on declining oil resources will not result in greater autonomy in the long-term; decisive state action to develop the country's agricultural resources will be essential in terms of providing local employment, food security, and an environmentally sustainable basis for wider economic development. Rather than seeking to radically alter the country's agricultural and cultural profile in favour of disruptive programmes of agricultural liberalization, the state must promote domestic production as a cornerstone of economic development. Domestic production can provide a basis for economic stability and social well being, whilst the investment of oil revenues towards building up local social and economic capacity can help to achieve a broader foundation for economic development. Neither state nor society can afford for key aspects of social welfare such as health, education, and employment to be left to the private sector alone. Establishing means for providing a level of comprehensive social services for the Timorese population will be essential, both in terms of human development and political stability.

¹¹ Space has not permitted mention of the issue of youth gangs in Timor-Leste. For a discussion of the link between gangs and youth groups and the outbreak of violence in 2006, see J. Scambary. (2006) *A Survey of Gangs and Youth Groups in Dili, Timor-Leste*. Canberra: AusAID.

Such a path will necessitate decisive efforts to prioritize domestic concerns over international expectations. How this is to be achieved given the realities of aid dependence and external neo-liberal governance is unclear. Timor-Leste's oil resources – while finite – do potentially afford a greater potential for government autonomy than would otherwise be available. Whether the government of Timor-Leste can succeed in achieving the lofty goals outlined in the Strategic Development Programme remains to be seen. However, this momentous task cannot be realized under the present conditions: in order to achieve locally relevant forms of democratic development, relationships between state and society must be redefined. Rather than remaining insulated and distant, the state must come to operate as an expression of Timorese society – it must be responsive to local cultural, historical, social, and economic conditions if it is to navigate a path towards a more independent and equitable future.

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